

# SAN FRANCISCO COUNTY ASSESSMENT PRACTICES SURVEY

## MARCH 1996

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## FOREWORD

The adoption of Article XIII A (Proposition 13 and later Proposition 8) by the voters in 1978 brought about significant changes in the way local government and public schools are funded. This Constitutional article drastically reduced property tax revenues by rolling back both the assessed value and the tax rate. In addition, it placed restrictions on the growth of assessed values and prevented local agencies from increasing the property tax rate. Although the property is a "local" tax, local governments have almost no control over the amount of property taxes to be collected or how the taxes are allocated among the county, cities, special districts, and schools.

The Article XIII A assessment requirements significantly altered the county assessor's property valuation program. Instead of appraising all properties periodically in accordance with a cyclical plan, as was done prior to Article XIII A, most kinds of real property are reappraised only if there has been a change in ownership, new construction, or a decline in value. The fair market value as of the date of change in ownership is the "base year value," and subsequent assessments cannot be increased by more than 2 percent annually. If, on any subsequent lien date the adjusted base year value exceeds the current fair market value of the property, the market value must be enrolled as the taxable value for that year. If there is new construction subsequent to the change in ownership, the value of the newly constructed property is determined and becomes an addition to the original base year value. This separate base year value is also subject to the maximum 2 percent annual increase in assessed value. Due to legislative definitions of what constitutes a change in ownership or new construction for property tax purposes, many types of ownership transfers and several types of construction are excluded from reassessment, although the assessor must nevertheless update the property ownership and physical characteristics records.

What does this mean to the assessor's valuation program? Under a cyclical reappraisal system, the assessor plans the reappraisal workload years in advance. Under the Article XIII A system, the assessor can only estimate workloads. In addition to discovering all changes in ownership and new construction, the assessor's staff must also analyze each such event to determine whether it is or is not subject to reassessment, as required by a complex set of constitutional and statutory requirements. Now, property tax appraisers must be both skilled in appraisal techniques and more knowledgeable of property tax law.

The recession of the early 1990's created additional complications for California counties and assessors. As a result of a weak real estate market, a large number of properties declined in value below the Article XIII A maximum, new construction and changes in ownership slowed greatly, and the changes in ownership that have occurred result in decreases or only modest increases in assessed value. Although the slowdown in new construction and changes in ownership decreased that portion of the assessor's workload, the decline in value problem has created an enormous increase in the workload for reappraisals and assessment appeals.

Because of property value declines, the rate of property tax revenue increases that had been experienced in the past lessened. At the same time, state budget problems have resulted in substantially reduced property tax allocations and other budgetary support for most counties. This has made it extremely difficult for most counties to provide adequate funding for assessors' offices as well as for many other important programs.

All of the factors discussed above contribute to making the local property tax a more difficult tax to administer, and seemingly more difficult to fund. Yet, the property tax continues to be one of the most important sources of revenue for local government and public schools. Further, the property tax continues to be the most visible of all state and local taxes; visible to those who pay the property tax and to all levels of government that are dependent upon it. This visibility and the continued importance of the tax require that good assessment practices, efficient administration, and total conformity with the law be achieved by all agencies involved in the administration of the property tax.

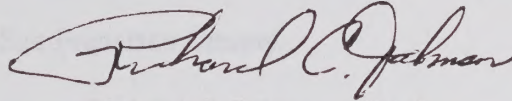
Although the primary responsibility for local property tax assessment is properly a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties is to conduct periodic surveys of local assessment practices. The Board's Assessment Standards Division conducts these surveys.

Assessment practices surveys are required by Sections 15640 through 15646 of the Government Code. These statutes require that a survey is to be repeated or supplemented at least once in every five years, which is the schedule for the current round of surveys. The surveys must include, at a minimum, a sampling of assessments of the local assessment roll followed by research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the valuation of taxable property; compliance with state law and regulations; the volume of assessing work and other duties to be done; and the assessor's needs for maps, records, equipment, supplies, and personnel.

Within 90 days after receiving a copy of the survey report, the county assessor may file a written response to the Board's findings and recommendations. The survey report, together with the county assessor's response and the Board's comments regarding the response, constitutes the final survey report which is distributed to the County Board of Supervisors, Assessment Appeals Board (if there is one), the Grand Jury, the Governor, the Attorney General, the Senate, and the Assembly.

Fieldwork for this report was conducted by Assessment Standards Division staff during June through August of 1995. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Dr. Doris M. Ward, the San Francisco County Assessor, and her staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.



Richard C. Johnson, Chief  
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March 1996



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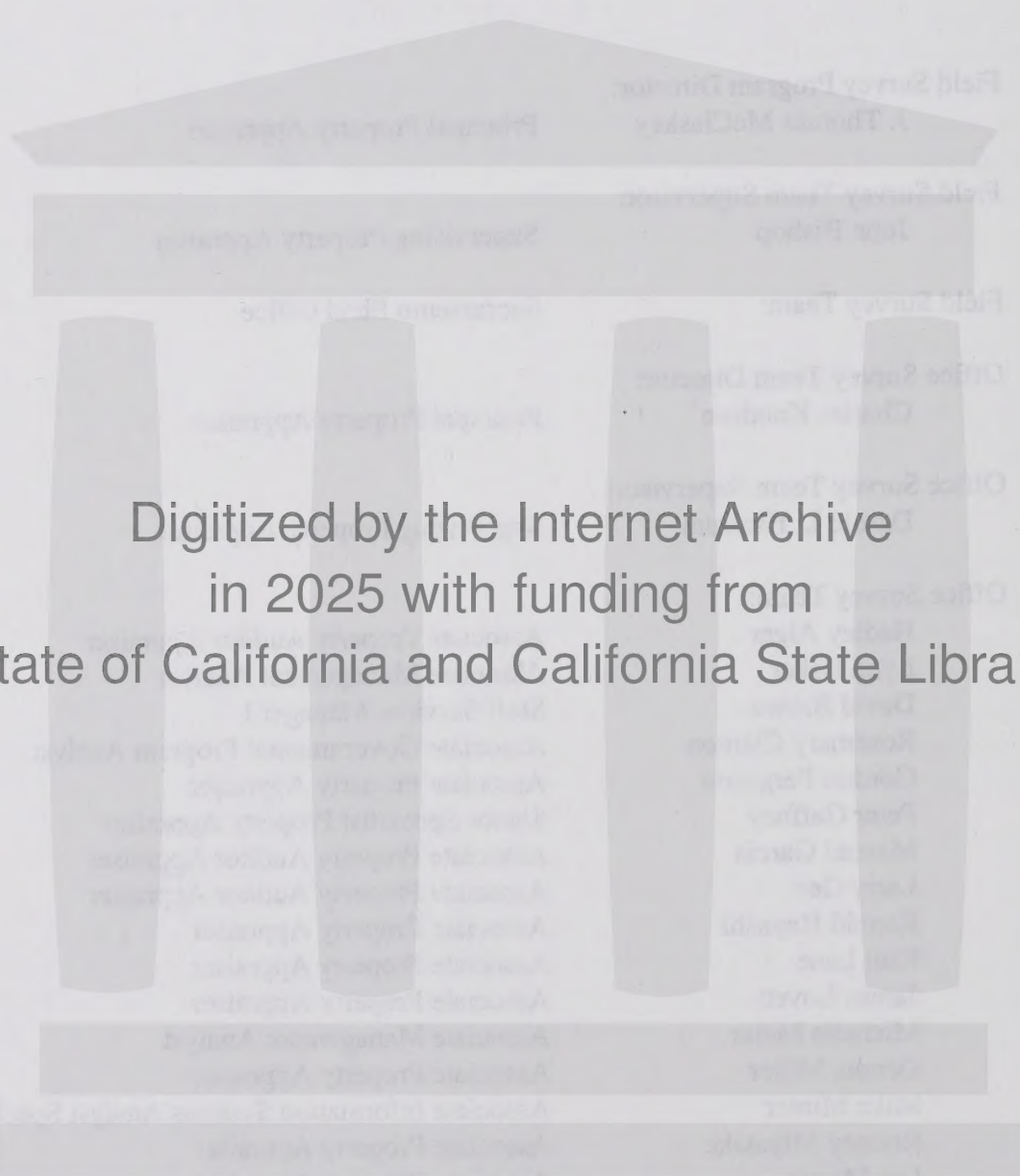
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## I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

### A. INTRODUCTION

Section 15640 of the Government Code in part mandates that the State Board of Equalization shall:

" . . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the Assessment Standards Division's (ASD) assessment sampling and office survey to be an evaluation of how well the county assessor is carrying out the sworn duty to assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

This section also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors Association. The board shall also provide a right to each county to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and office survey process is carried out was developed after consultation with county assessors by the staff of the Assessment Standards Division.

This report is the culmination of a review of the San Francisco County Assessor's operation. The survey team examined current practices and procedures in key areas to see whether the most significant problems identified in the sampling still existed in the assessor's operation. Finally, the survey team developed positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in her program.

## Overview of the San Francisco County Assessment Roll

ASD's field appraisal team completed appraisals of 351 properties of all types assessed on the 1990-91 San Francisco County assessment roll. This roll contained a total of 194,530 assessments having a total taxable value of \$48,590,948,864. (For a detailed explanation of ASD's assessment sampling program, see Appendix 6 at the end of this report). The results of the roll sampling indicated the composition of the local roll by assessment type and property type as follows:

<u>Assessment Type</u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Base Year <u>1/</u>	117,171	\$17,889,229,949
Transfers <u>2/</u>	41,683	19,042,235,168
Construction <u>3/</u>	4,992	7,190,570,127
Non-Prop. 13 <u>4/</u>	--	--
Unsecured <u>5/</u>	<u>30,684</u>	<u>4,468,913,620</u>
Total	194,530	48,590,948,864

<u>Property Type</u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Residential	157,027	\$26,205,768,871
Rural	--	--
Commercial-Industrial	34,946	22,273,877,680
Miscellaneous	<u>2,557</u>	<u>111,302,313</u>
Total	194,530	\$48,590,948,864

- 
- 1/ Assessments where the base year was 1985 or earlier.
- 2/ Assessments where a change in ownership after February 28, 1985, established a new base year value in whole or part.
- 3/ Assessments where new construction completed after February 28, 1985, established a new base year value.
- 4/ Assessments where all or part of the real property is excluded from the value-limiting features of Article XIII A.
- 5/ Assessments entered on the unsecured roll; can include personal property, fixtures, structures on land owned by another, and taxable possessory interests.

For the 1994-95 assessment year, the San Francisco County Assessor prepared a roll containing over 222,886 entries (172,394  $\pm$  secured items and 50,492  $\pm$  unsecured items) on a gross budget of just over \$6 million, which funded 100 full-time permanent positions and the assessor. This represents a reduction of 10 positions since the 1992-93 budget year. The office has approval for 107 budgeted positions for fiscal year 1995-96.

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in San Francisco County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the San Francisco County Assessor's Office by the Board's Assessment Standards Division.

This survey was conducted according to the method mandated by Section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

Revenue and Taxation Code Section 75.60 requires that the Board certify a county as eligible for the recovery of cost associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level of 95 percent or higher as determined by the Board through its assessment sampling program.

Based upon our most recent assessment sampling, the Board certified San Francisco County as an eligible county. This indicates that its assessment program is substantially in compliance with the law. The recommendations and suggestions contained in this report are based on our analysis of data which indicated that statutory violations, under-or overassessments, or unacceptable appraisal practices may be occurring in specific areas.

## B. EXECUTIVE SUMMARY

The present San Francisco County Assessor assumed office approximately three years before the research for this report was conducted. She inherited an organization beset by problems going back many years. These problems include:

- (1) Many valuable properties were under assessed or not assessed at all. Assessable possessory interests at the convention center and for maritime shipping lines are two examples.
- (2) An appraisal staff with an average of only 60 percent of the state-law required training necessary to value properties for property tax purposes.
- (3) Technology support that consisted mainly of 1960's era mainframe computers. Most basic workflow systems were manually accomplished.

- (4) A total lack of staff accountability. Time reports, production standards, etc., were non-existent.

Add to this a staff that appeared to be distrustful of management, and one can begin to see the problems faced by this assessor the first day she walked through the assessor's office door. She was not unaware of what lay ahead, as she had been forewarned by other assessors in the state whom she had contacted prior to assuming her duties.

The assessor saw as her first priority the installment of a management team with extensive management and assessment experience. She has been able to recruit and add to her staff several individuals with these credentials.

Another top priority on her agenda was to bring the assessor's office technology into the 1990's. When she assumed office three years ago, there were only two personal computers (PC's) available to the whole staff. Approximately 33 PC's are now operational in the office, (13 on the LAN system and 20 as stand alone units) with another 20 slated for installation as soon as the proper electrical wiring is available. Many more technology modernizations are planned in the near future.

The assessor's extensive educational background made her acutely disappointed by the training deficiencies of her appraisal staff. She has actively supported a program to bring the staff's training and education up to the statutory requirement. She has also recruited for the best possible candidates for appraiser trainees. Six have been recently hired and are in the midst of an intensive hands-on training program that will last about six months.

Studies for time reporting system began in June 1994 and was installed about six months prior to the fieldwork for this report. Once sufficient data has been compiled, management reports will be regularly generated so that workload standards can be developed and monitored.

These and many other major positive actions have been taken by this assessor since assuming office. To date, unfortunately, the impact has been minimal.

What is needed is strong, immediate, and decisive action. Complete administrative and operations manuals must be written or updated, implemented, and their adherence continuously monitored. Far too often staff operate as they individually see fit. This is caused, in the main, by the lack of clear, concise, written management expectations and step by step procedures. We too often observed individual staff members ignoring many aspects of the few written directives that are now in existence.

It was our impression that most of the staff are genuinely interested in doing a professional job. They have been hindered over the years by lack of modern technology and a general malaise that would infect any organization allowed to meander aimlessly for so long. With the right direction and support from management, the staff will implement the many changes that are so obviously necessary. That direction from management must be in the form of

a complete set of administrative and operational manuals and a clear conveyance by management that all staff members must follow them. Despite the assessor's good efforts to date, she has not taken this most important step.

She has a standards and quality control unit currently in place. To date, though, most of the unit's responsibilities have been in the area of document processing. The assessor should reorganize this unit, remove any functions not related to standards, establish its priorities to produce the operations manuals, and then charge it with continuously monitoring their implementation. This unit should report only to the assessor and her highest level managers (chief assistant assessor and executive assistant). We cannot overemphasize the importance of taking these actions.

Much of this report concentrates on technical assessment or valuation problems or deficiencies. This is to be expected since a large complex assessment operation devotes, by necessity, much of its time to the technical and legal aspects of proper valuation of property for assessment purposes. However, we emphasize to the reader that those needed technical corrections can only be made, and be permanently effective, after the needed management improvements are in place. Our discussion with the assessor and her executive staff show them to be keenly aware that this is so. It is our impression that they intend to make those improvements as soon as possible. In fact, many are already in the first stages of implementation.

### C. REPORT SUMMARY

This report contains 52 formal recommendations for improvements that should be made to the San Francisco County Assessor's Office. This is the largest number of recommendations made in the Board's ongoing series of assessment practices surveys of assessors' office in many years. There are two overriding reasons for this large number of recommendations.

- (1) First, as was noted in the "Executive Summary," most of the problems have accumulated for many years.
- (2) Second, this is the most in-depth assessment practices survey of an assessor's office done since the 1970's. Recently, the Board has conducted "supplemental," surveys in which the survey teams are minimally staffed and the time spent researching the project is brief. Such was not the case in San Francisco County.

*At the assessor's request,* a comprehensive in-depth review of every aspect of her office was made. Since assuming office three years ago, this assessor has become acutely aware of the many problems she faces in making the assessor's office an effective and efficient assessment operation. She saw the Board's regularly scheduled assessment practices survey as an opportunity to gain the insight of a group of assessment experts that have seen the office operations of every assessor in the state. To gain full benefit of that opportunity, she requested to

the Board, and was granted, a most comprehensive survey. This report is the result of that survey.

The reader will note seemingly similar recommendations in the various sections of this report. For instance, the need for written directives is repeated in various forms throughout the text. So great is the need that it was necessary to detail the specifics in each area of the assessor's programs rather than generalize as an overall observation. Other recurring topics were similarly treated.

The assessor has indicated to us her intention to carefully consider all the observations and recommendations made in this report and formulate a strategic blueprint for change and improvement based in large part on the report's content.

We think this is a good and sensible course of action since many of our observations and recommendations are based largely on legal mandates the assessor must meet, as well as good assessment and management practices we have observed in other county assessors' offices throughout the state.

The first major section of this report is termed "Administration." In it we have included subjects that are not always intertwined with valuation or assessment, but rather the policies, functions, and support necessary to operate a large and complex organization. We also include in Administration office-wide programs that require the assessor's attention for adherence to policy. Many of the recommendations contained in this section of the report represent good management or administrative practices, whether for a private corporation or government entity. We also offer specifics for the San Francisco County Assessor's Office.

We begin the Administration section by noting the need for expanding the existing strategic plan to guide the assessor's immediate and long-range actions. Paramount to any strategic plan and/or good management is the need for comprehensive written policies and procedures. This is the subject of the second recommendation in this report. We go on to note the need for reorganization within the assessor's administrative section and make a strong recommendation regarding the need for modern computer capability.

Within Administration, we also note the need for better employee production and timekeeping records. We also offer some advice in personnel and civil service aspects, and better ways to orient new employees. We make special note of the need, not unknown to the assessor, to properly train her staff to meet legal mandates.

We include a major discussion on the assessor's assessment appeals program and its need for improvement. We also detail the need for major improvements to the assessor's property tax exemption program. We note the needs for "Proposition 8" (decline in value) reviews on a regular basis, a policy for assessment roll corrections, and modifications to the disaster relief program.

The Administration portion of this report is concluded with a strong recommendation for improvement in the assessor's records maintenance and management program. Its importance as part of overall improvement in the assessor's office cannot be over-stated.

In the second major section of this report, termed "Real Property Assessment", we make five recommendations regarding the assessor's program for revaluing properties that have changed ownership. We also include seven recommendations regarding her program for discovering, valuing, and assessing items of new construction. Under the mandates of Proposition 13, the valuation and assessment of properties changing ownership or newly constructed represents the major portion of any California county assessor's office workload. The importance, therefore, of these recommendations is obvious. In particular, the assessor's new construction assessment program has suffered of late due, in the main, to a huge increase in assessment appeals cases that occupied much of the appraisal staff's time. The new construction situation has now reached the critical point and must receive the assessor's immediate attention.

In the Real Property Assessment section we also include recommendations regarding the appraisal of commercial properties, and the need for improvements to the possessory interest assessment program.

The last major section of this report, entitled "Business Property Assessment," begins by noting the need to bring the assessor's mandatory audit program to current status. The prior ASD survey (1990) of the San Francisco County Assessor's Office noted a problem with the backlog of mandatory audits. Our current review found the personal property division still has a serious problem with the status of the mandatory audit program. Revenue and Taxation Code Section 469 requires that these audits be completed timely. We also offer recommendations on a nonmandatory audit program, a better way to process the business property statements, and ways to improve the direct billing program and the business property discovery program.

We note that the assessor should seek an ordinance exempting low-valued business personal property. She should improve the programs for assessing apartment personal property, personal property owned by co-op housing corporations, service station improvements, leasehold improvements, and leased equipment.

The assessor should change the present assessment roll preparation procedures relative to business personal property, and timely submit Board-prescribed forms for approval. And finally, she needs to upgrade the procedures for assessing boats and vessels.

In the appendices to this report the assessor will find a functional description to guide her in reorganizing her Standards and Quality Control Unit. We have also included a sample audit checklist that she should incorporate into her business property audit program, and guidelines for determining welfare exemption eligibility.

## D. RECOMMENDATIONS AND SUGGESTIONS

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation or suggestion and its supporting text may be found.

### RECOMMENDATIONS

- RECOMMENDATION 1: Expand the Office of the Assessor's Strategic Plan as follows: (1) include all issues, both positive and negative; (2) extend the strategic planning process to the divisional level to include issues and strategies specific to each division; (3) develop lower-level implementation plans that include measurable objectives with due dates and responsible parties. (Page 15)
- RECOMMENDATION 2: Develop an Assessor's Office Policy and Procedures Manual that pertains to general administrative matters. Update the various operations manuals within the assessor's office to reflect current office procedures. (Page 17)
- RECOMMENDATION 3: Redefine the objectives and responsibilities of the assessor's assessment standards section as the standards and quality control unit. (Page 19)
- RECOMMENDATION 4: Update computer capabilities by: (1) acquiring a modern mainframe computer system for assessment functions; (2) implementing a more comprehensive Local Area Network and continually training all staff in its use; and (3) filling the vacant computer specialist position and providing continued support for this function. (Page 20)
- RECOMMENDATION 5: Further develop and improve the weekly production reporting system so that key workload categories can be measured and the resulting information used more effectively as a management tool. (Page 28)
- RECOMMENDATION 6: Initiate a review of the Civil Service Rules and Regulations to determine hiring options and opportunities available to establish programs unique and necessary to the assessor's office. (Page 32)
- RECOMMENDATION 7: Review the possibility of obtaining additional delegation from the Human Resources Department for position classifications and examinations. (Page 32)

- RECOMMENDATION 8: Develop and adhere to a training plan for certificated appraisal and audit-appraisal staff. (Page 33)
- RECOMMENDATION 9: Cross-train and rotate the clerical staff and the assessment clerk staff in the real property and personal property divisions to optimize the use of existing resources. (Page 35)
- RECOMMENDATION 10: Upgrade the administration of assessment appeals by: (1) increasing control over appraisal records; (2) developing and presenting training specifically for the assessment appeal function; and (3) acquiring and employing computer-operated software including an AAB program, income capitalization models, and appraisal forms. (Page 37)
- RECOMMENDATION 11: Revise welfare exemption procedures as follows: (1) adhere to reporting and filing requirements for the welfare exemption; (2) do not declare to a claimant that a welfare claim has been approved until the claim has been ratified by the Board; (3) expedite the processing of new welfare exemption claims; (4) forward a list of welfare claimants and their exemption status to the business property division; (5) train staff to process the abbreviated welfare exemption claim form; and (6) date-stamp exemption claims forms when received in the assessor's office. (Page 42)
- RECOMMENDATION 12: Make improvements to the property tax exemption program in the areas of lessor's exemptions, nonprofit organizations, equipment leased to exempt organizations, and the processing of claim forms. (Page 46)
- RECOMMENDATION 13: Review "Proposition 8" values on a regular basis. (Page 48)
- RECOMMENDATION 14: Establish and implement a procedural policy for roll corrections that includes: (1) reviews of change in ownership statements to identify principal places of residence; (2) documentation of appraisal records that a roll correction is authorized; and (3) consolidation of the various roll value correction forms that are now being used. (Page 48)
- RECOMMENDATION 15: Modify the disaster relief assessment program by: (1) requesting the board of supervisors to adopt a disaster relief ordinance that reflects the requirements of the Revenue and Taxation Code; (2) granting disaster relief to all qualifying property, including personal property; (3) using all available sources for discovering properties damaged by calamity or misfortune; and (4) transferring

the disaster relief program to the technical services real property section. (Page 50)

RECOMMENDATION 16: Revise the list of transfers for public use to meet the requirements of Section 408.1 of the Revenue and Taxation Code. (Page 55)

RECOMMENDATION 17: Develop and implement uniform policies and procedures for the maintenance of records to ensure that all records are updated, archived, and/or destroyed on a regular basis. (Page 55)

RECOMMENDATION 18: Establish an appraisal activity system to help identify and prioritize the real property workload. (Page 58)

RECOMMENDATION 19: Create and maintain an appraisal data bank. (Page 59)

RECOMMENDATION 20: Consider all applicable approaches to value. (Page 61)

RECOMMENDATION 21: Draft and distribute to the real property appraisal staff an official procedure for the application of Section 506 interest. (Page 62)

RECOMMENDATION 22: Reassign change in ownership document processing responsibilities. Page 65)

RECOMMENDATION 23: Develop and implement a written policy for making cash equivalent adjustments. (Page 66)

RECOMMENDATION 24: Review value calculations for parcels having multiple fractional interest transfers. (Page 66)

RECOMMENDATION 25: Reappraise and supplementally assess all qualifying changes in ownership resulting from foreclosures by financial institutions. (Page 67)

RECOMMENDATION 26: Establish procedures, controls and areas of responsibility to ensure that all properties subject to reappraisal because of changes in control receive timely and appropriate action. (Page 69)

RECOMMENDATION 27: Eliminate the current backlog of assessable new construction. (Page 72)

RECOMMENDATION 28: Reinstitute formalized procedures for processing, valuing, and enrolling assessable new construction. (Page 73)

RECOMMENDATION 29: Standardize the use of the cost approach for valuation of new construction. (Page 74)

- RECOMMENDATION 30: Revise the procedure for the use of self-reporting by taxpayers of certain new construction activity. (Page 74)
- RECOMMENDATION 31: Revise the processing of building permits by: (1) obtaining sufficiently detailed information for all permits from the Permit Bureau to facilitate accurate screening; (2) revising permit screening parameters; (3) forming a separate permit processing section with adequate clerical staffing and technical support; and (4) implementing direct terminal access to the Permit Bureau's data bank as soon as feasible. (Page 76)
- RECOMMENDATION 32: Maintain a list of discarded building permits. Periodically review the list for accumulated construction activity occurring at one site or project that may indicate assessable new construction. (Page 80)
- RECOMMENDATION 33: Revise procedures for assessing tenant improvements: (1) value and enroll tenant improvements uniformly; (2) investigate tenant improvement costs reported on business property statements; and (3) obtain and review current leases for provisions regarding tenant improvements. (Page 84)
- RECOMMENDATION 34: Improve the quality of commercial property valuation through: (1) better control, organization, and maintenance of appraisal files; (2) better capture, storage, and use of appraisal market data; (3) specialized training for appraisers valuing complex properties; and (4) written procedures for appraisals and their documentation. (Page 89)
- RECOMMENDATION 35: Revise the possessory interest assessment program by: (1) annually reappraising month to month tenancies; (2) ceasing the assessment of possessory interests in nongovernmental properties exempted by Article XIII of the California Constitution; (3) reviewing terms of possession; and (4) requesting notification of issuance of construction permits issued by, and enrolling assessable new construction at, the Port of San Francisco. (Page 94)
- RECOMMENDATION 36: Bring the mandatory audit program up to current status. (Page 101)
- RECOMMENDATION 37: Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed timely. (Page 103)
- RECOMMENDATION 38: Develop a formal nonmandatory audit program. (Page 108)

- RECOMMENDATION 39: Improve the processing of business property statements by: (1) screening business property statements for completeness; (2) adding the penalty required by Section 463 of the Revenue and Taxation Code to property statements that are not signed properly; and (3) using clerical personnel to process most business property statements. (Page 109)
- RECOMMENDATION 40: Improve the direct billing program by: (1) establishing a year history prior to enrolling an account into the program; (2) excluding hotels, motels, banks and financial institutions, and multi-location accounts from the direct building program; and (3) sending business property statements to direct billing accounts every fourth year. (Page 112)
- RECOMMENDATION 41: Improve the business property discovery program by supplementing the field survey with other methods of discovery. (Page 113)
- RECOMMENDATION 42: Request the county board of supervisors to adopt an ordinance exempting low-valued property. (Page 115)
- RECOMMENDATION 43: Develop and implement written standardized procedures for the discovery and assessment of landlord-owned apartment personal property. (Page 115)
- RECOMMENDATION 44: Exempt personal property owned by co-op housing corporations. (Page 117)
- RECOMMENDATION 45: Reclassify certain service station improvements as fixtures. (Page 117)
- RECOMMENDATION 46: Upgrade the assessment program for leased equipment. (Page 118)
- RECOMMENDATION 47: Revise escape assessment procedures: (1) ensure all business property statements are processed prior to the assessment roll; (2) cite Revenue and Taxation Code Section 531 when adding escape assessments from delayed property statement processing; and (3) provide taxpayers with notices of proposed escape assessments as required by Section 531.8 of the Revenue and Taxation Code. (Page 121)
- RECOMMENDATION 48: Insure that when known, the full name of the assessee appears on the roll. (Page 123)

- RECOMMENDATION 49: Make timely submission for approval of Board-prescribed forms. (Page 124)
- RECOMMENDATION 50: Upgrade boat appraisal procedures by: (1) updating the marine division procedure manual; (2) obtaining computer access to DMV's vessel database; (3) requiring that an annual Vessel Property Statement be sent to boat owners with boats costing \$100,000 or more; (4) screening more closely the signatures on Vessel Property Statements; and (5) identifying and assigning duties in the marine division that can be performed by support staff. (Page 126)
- RECOMMENDATION 51: Revise documented vessel procedures by: (1) requiring a current United States Coast Guard Certificate of Inspection; and (2) implementing the 80 percent assessment reduction for late-filed exemption claims. (Page 128)
- RECOMMENDATION 52: Thoroughly examine claims for relief under the Soldiers' and Sailors' Civil Relief Act. (Page 129)

### SUGGESTIONS

- SUGGESTION 1: Revise homeowners' exemption procedures by: (1) more timely identification of homeowners eligible for the exemption on newly created condominium parcels; and (2) requiring that the financial statements, Articles of Incorporation, and contracts of sale are included with the initial filing of a cooperative housing claim. (Page 41)
- SUGGESTION 2: Create a separate appraisal crew to appraise assessable new construction. Include an auditor-appraiser to aid in the segregation of assessable business and real property items. (Page 72)
- SUGGESTION 3: Log all permits on appraisal records. (Page 81)
- SUGGESTION 4: Identify and review all Section 236, National Housing Act properties in San Francisco County. (Page 98 )
- SUGGESTION 5: Improve audit documentation and consistency among the audit staff by: (1) requiring a completed checklist for every mandatory audit; and (2) summarizing audit findings for simpler referral during property statement processing. (Page 104)

SUGGESTION 6: Convert the present closed-drawer cabinet system to a color-coded open-shelf filing system; file accounts by owner's name (not DBA) or by account number; implement a check-out system for business files.  
(Page 125)

## II. ADMINISTRATION

### A. GENERAL

Throughout this report we detail the need for complete written procedures. This need exists in every aspect of the assessor's office. Some headway has been made in the business property division, but nothing in the nature of a centralized, approved, and routinely updated set of policies and procedures exists. Several units have developed some on their own, but they are changed at the whim of the staff and cannot be construed to represent assessor policy.

One of the potential problems arising from this lack of written procedures is the absence of security controls over the system that maintains the assessment roll. Currently, it is ridiculously simple for nearly anyone in the office to make either authorized or unauthorized changes. Changes require the inputting of an identification number of the person initiating the change plus the initials of that person's supervisor on the input document. In practice, many employees know other employees' identification numbers and use them to "help" input data for an absent employee if the data is relevant to the absent employee's assigned area of responsibility. It has not been uncommon for employees to enter their supervisor's initials or supervisors to enter employees' initials "to save time." Thus, the intended controls, and checks and balances, have been routinely bypassed in the name of efficiency.

We wish to emphasize that we found no evidence or record of wrongdoing by the assessor's staff in this regard. The potential, however, is there. Major changes are needed in this area to continuously ensure the integrity of the assessment roll.

At the time of the fieldwork for this report, the four principal appraisers' assigned responsibilities were rotated. This was greeted by less than an enthusiastic response from them. However, in the long run this should have a positive effect as fresh ideas and a hopefully rejuvenated attitude contribute to making the needed improvements.

In this section of the report that we have labeled as "Administration," we discuss first the need for written directives and the need for and proper use of a standards and quality control unit. Most of the recommendations for change and improvement contained in this report cannot be made until these first important steps are accomplished.

### B. MANAGEMENT

#### 1. Written Procedures

RECOMMENDATION 1: Expand the Office of the Assessor's Strategic Plan as follows: (1) include all issues, both positive and negative; (2) extend the strategic planning process to the divisional level to include issues and strategies specific to each division; (3) develop lower-level

implementation plans that include measurable objectives with due dates and responsible parties.

The assessor has recognized the need to develop a strategic plan and has begun the preliminary work involved in that development. The mission statement and the goals of the assessor's office have been developed; however, significant issues that must be addressed and strategies for addressing them have not yet been identified. Furthermore, the division chiefs do not currently have plans that lay out the issues and strategies that are specific to their divisions.

Strategic planning is a dynamic management process for ensuring that an organization's mission is accomplished and goals are attained in the face of rapidly changing circumstances. The planning process is very important to the organization because it brings staff together to jointly discuss and plan the direction in which the organization wishes to proceed in the future. The written plan is an effective way to communicate the organization's strategic direction to both internal staff and external entities.

The planning process for developing a strategic direction and written plan includes the systematic assessment of the external environment to identify potential opportunities or problems facing the organization and the internal environment to identify the organization's strengths and weaknesses. The environmental assessment leads to the identification of strategic issues (i.e., problems and opportunities) that may help or hinder the organization in achieving its mission and attaining its goals. Once the strategic issues have been identified, strategies are developed to resolve those issues. (This process is described in greater detail in Strategic Planning for Public and Nonprofit Organizations by John M. Bryan.)

An organization's strategic plan should be implemented through a set of integrated organizational or "program" plans for each area or program within the organization. The program plan, like the strategic plan, should include a delineation of the program-level mission, goals, issues, and strategies. However, unlike the strategic plan, the program plan should include measurable objectives, due dates, and the individuals or units responsible for accomplishing each objective.

In developing both the strategic plan and the program plans, a wide range of potential opportunities, problems, strengths, and weaknesses that may impact an organization can be identified by soliciting input from staff, as well as management, within the organization. This approach (1) encourages staff to observe their work environment and alert management to those areas which could be improved or may pose problems and (2) enables them to contribute suggestions for improvement or resolving problems. This direct involvement in the process gives staff a sense of value and ownership in the plan. Generally, strategic and program plans will be successful if those individuals who are guided by them believe in and support them.

We recommend that the San Francisco County Assessor identify any opportunities and problems that will help or hinder the office in achieving its mission and attaining its goals, and include those issues in their strategic plan. Division chiefs and their staff should be included in the planning process by assisting in the identification of those opportunities and problems.

Once those issues have been documented and agreed upon, the management of the assessor's office should work together to develop strategies for addressing each issue. Upon completion of the assessor's strategic plan, each division should develop individual integrated organizational or "program" plans that identify any issues directly impacting their ability to help the assessor's office achieve its mission and attain its goals. Additionally, the division level program plans should include strategies, measurable tasks for addressing or resolving each strategy, due dates for the completion of each task, and the individual or unit responsible for accomplishing each task.

The strategic planning process provides a forum for managers, supervisors, and employees to discuss major problems or opportunities and agree upon an approach for acting upon and resolving them. It also allows management to establish priorities and clarify future direction for the organization as a whole and for each division within the organization. It directs management's attention to the long-range impact of decisions and guides decision-making and action with respect to the significant issues that confront them now and in the future. Working through the process teaches managers to think strategically, behave productively, and manage change effectively. Planning also provides a framework for anticipating and planning for budgetary needs. Finally, the formal written plan communicates to all within and outside the organization the major areas of concern and the plans established for resolving them.

**RECOMMENDATION 2:** Develop an Assessor's Office Policy and Procedures Manual that pertains to general administrative matters. Update the various operations manuals within the assessor's office to reflect current office procedures.

### Administrative Policy Manual

In the assessor's office, new and revised administrative policies and procedures are communicated in two ways: (1) policy memos are issued by the assessor to the division chiefs who, in turn, interpret the policy and reissue memos to their respective staff; and (2) division chiefs develop and communicate, as time permits, new policies that apply to only their respective divisions. There is no single reference point where all administrative policy and/or procedures, which affect the assessor's office staff, are kept. Likewise, there is no single coordination point for all administrative policy and procedural changes that are initiated and communicated.

In the absence of a comprehensive Assessor's Office Policy and Procedures Manual it is difficult to determine how, if, or when staff are informed of administrative policy and procedures which affect them. Since the division managers often create separate memos to communicate both policies coming from the assessor and those initiated within their own divisions, it is unclear whether the assessor reviews and/or approves the division-initiated policies before they are distributed. This practice may result in different policy or procedures on the same subject matter within each division.

A comprehensive written Administrative Policy and Procedures Manual is a convenient device for communicating to staff the organization's policies and procedures and

current information of a relatively permanent nature on subjects pertaining to general administration. It also serves as a guide for good administrative practices. This ensures that all staff receive the same administrative direction and are following the same procedures.

We recommend that the assessor develop an Administrative Policy and Procedures Manual which would serve as the official comprehensive source of policies and procedures that affect all of the assessor's staff (i.e., personnel-related policy, procedures for performing functions required of all staff, etc.). Each policy or procedure included in the manual should be reviewed and approved by the assessor before inclusion in the manual. As the need for additional policies and procedures arise, drafts should be forwarded to the assessor for review and approval. Upon approval, new policies and procedures would be distributed to all staff and incorporated into the Administrative Policy and Procedures Manual. Each division should maintain an up-to-date copy of the manual and make it accessible to all staff. The assessment standards division should be assigned responsibility for coordinating the policy review and approval process and distributing changes and revisions to staff and each holder of the manual.

Creation and maintenance of an Assessor's Office Administrative Policy and Procedures Manual will ensure that all staff receive the same administrative direction and are following the same procedures. It is also a good information source for new managers and staff who must familiarize themselves with the office's rules and administrative practices. Establishing a formal review and approval process will ensure that all policies and procedures implemented are consistent with the agreed upon mission, goals, and future direction of the assessor's office.

### Operational Procedures Manuals

Various divisions within the assessor's office have some form of operations manuals in existence. The personal property division has recently completed a new operations manual; the assessment standards, technical services, and administration divisions have not formally updated their respective manuals over the past 10 years; and the real property division operations manual predates the previous two assessors.

Operations manuals provide broad policy guidelines, specific standards, and uniform procedures to assist staff in the preparation of audit and appraisal reports, as well as other technical work products. Current manuals can help ensure that assessor's office work is consistent with approved policies and practices. In addition, separate operations manuals for each division provide special policies and procedures that relate to the specific program responsibilities of the particular division.

We recommend that: (1) the assessment standards, technical services, and administration divisions update their respective operations manuals to reflect current laws, rules, practices, and procedures that impact the work of the division; (2) the real property division completely update its policies and procedures manual; and (3) the personal property division develop a process to ensure their new operations manual remains up-to-date.

Current operations manuals will provide the assessor's office staff with written directives of the processes, procedures, and techniques that are necessary to perform their duties in an adequate manner. The manuals can also be used as training tools for new employees.

## 2. Standards and Quality Control Unit

The operation of an assessor's office, especially one as large as the San Francisco County Assessor's Office, is a difficult and complex task. Its multi-functional aspect mandates that the assessor institute and monitor administrative and operational policies and procedures. This should be the responsibility of a Standards and Quality Control Unit.

RECOMMENDATION 3: Redefine the objectives and responsibilities of the assessor's assessment standards section as the standards and quality control unit.

The current assessment standards section is staffed with a chief of assessment standards, a property transfer assistant, an assessment clerk, and two senior assessment clerks. At the time of our office survey, one of the senior assessment clerk's positions was vacant. In addition, a real property appraiser was assigned to the standards section. This section should become the standards and quality control unit.

One reason the present assessment standards section is not able to perform as a standards and quality control unit is because of improper workload responsibilities. In addition to their present standards duties, which are minimal, the staff of the assessment standards section function as both an appraisal unit, a technical services unit, and a clerical unit. The section is responsible for the valuation of most residential properties (up to four-unit apartment complexes) that can be directly enrolled at sale price. The staff is also responsible for the valuation of all property that has lost value because of a calamity or misfortune. The section assists the technical services section and the real property section in the processing of deeds and building permits. In addition, the staff makes corrections and cancellations to the supplemental roll, segregation of tax bills, prorates unsecured escaped assessments, corrects current and supplemental rolls due to assessment appeals, and processes all exclusions from change in ownership. Consequently, there is little or no time to perform the actual functions which are normally done by a standards and quality control unit.

We recommend that a major redefinition of the present assessment standards section take place. It should become the assessor's Standards and Quality Control Unit. All line functions should be removed from its responsibility. The assessor has indicated her intention to form a transactions unit which will handle many of the line item functions currently performed by the standards unit. We concur with this plan.

In San Francisco, the standards unit's first priority must be the writing of administrative and operational procedures. Once this is done, it must perform its quality control function, continually assuring that the assessor's adopted policies and procedures are being adhered to.

To be optimally effective, the unit must be totally free of undue influence or pressure. Therefore, it must be headed by a high level position and report only to the assessor and her executive staff (chief assistant assessor and executive assistant).

We know the temptation to use standards and quality control staff in line item functions can be overwhelming, especially in this era of shrinking budgets and expanding workloads. We have seen many assessors succumb. However, we cannot overemphasize the need for this function in the San Francisco County Assessor's Office. Because the present ills of the assessor's office are largely a result of the past absence of standards and quality controls, it is imperative that this unit be established, staffed, and maintained to perform these functions. We urge the assessor to give this matter her immediate attention.

We have included in Appendix 1 the major functions of a standards and quality control unit.

### 3. Computer Capabilities and Needs

The San Francisco County Assessor's Office is woefully antiquated in its adaptations of computers to basic assessment roll functions. There have been false starts in past years, but there is still no good assessment data base. Our review persuaded us that only a three-pronged approach to revamping the computer system will properly address the serious deficiencies confronting the assessor's office.

RECOMMENDATION 4: Update computer capabilities by: (1) acquiring a modern mainframe computer system for assessment functions, (2) implementing a more comprehensive Local Area Network and continually training all staff in its use; and (3) filling the vacant computer specialist position and providing continued support for this function.

### Outdated Mainframe System

The development of the assessor's Real Property System began in the 1960's. Over the years, the system progressed from a card-oriented system to an on-line system with over 200 supporting batch programs for file manipulation and report generation. The data is accessed in two different ways, either by using online transactions or by requesting information in a tape/report format. Extensive changes in the law, notably the passage of Article XIII A in 1978 and supplemental assessment legislation in 1983, have necessitated many changes and additions to the original system. Unfortunately, the existing system is difficult to maintain and cannot effectively be reconfigured to adapt to the current workload of the assessor's office.

In 1984, the Electronic Information Processing Steering Committee (EIPSC) directed that a Property Information System Users Group be formed to address the development of a City Wide Property Information System. The group met for several months and concluded that the best approach to develop such a system would be an incremental one, beginning with the

development of a new Assessor's Real Property System as the cornerstone of the ultimate system. The new system would have provided the added benefits as follows:

- Eliminate the need to rekey 80 percent of the ownership information which is already being entered by the recorder.
- Faster, more reliable processing of supplemental and escape assessments
- Faster and easier implementation of legislative requirements relative to assessments, ownership, and exemptions, with less costly maintenance
- Improved management information and government reporting capabilities
- Reduction in the volume of tax delinquencies and uncollectible items
- Fewer erroneous billings
- Automation of several time consuming auditing and appraisal functions
- Reduction in the amount of manual processing required for exceptions, assessment maintenance, and annual production of an assessment roll.

Completion of the project would result in improved service to the public through faster response to property-related queries, availability of more comprehensive information, and consistency in ownership, zoning, and other property related data. More importantly, a platform would have been established to support a unified source of accurate property information.

In 1989, a plan to begin the development of the system was published. It represented a logical design for the system, identified the functions to be performed, and specified the information to be captured. It also defined the business needs of real property and what the proposed system should do to accomplish those needs. The logical model was derived from interviews, observations, reviews of existing procedures and systems, research of relevant business policies, and brainstorming.

Unfortunately, as the project neared completion, estimated at 80 percent, the prior assessor deleted expenditures for the development of this system from his budget and the project was no longer funded.

Currently, the assessor's office, in coordination with the Information Services Division (ISD) of the Controller's Office, is again searching for an Integrated Property System to replace its outdated Property System. As of September, 1995, no replacement system had been identified, though the assessor and her management team are actively pursuing one.

We strongly recommend that the assessor assign highest priority to replacing the outmoded real property information system with a modern system. This is the cornerstone for streamlining production of the property tax assessment roll.

#### Network/Personal Computers (PC's)

The personal computers (PC's) in the assessor's office are DOS-based (Disk Operating System) and will support Windows applications. While most of the PC's are located in common areas, some have been assigned to individual appraisers. Although the assessor's office purchased 20 new PC's in 1995, as of September of that year they had not been installed. Although the office did recently (July 1994) install a Local Area Network (LAN) running on Novell's Network 3.12, only 13 PC-based workstations are currently connected. The assessor plans to have the remaining PC's and the 20 newly purchased PC's added to the network after wiring limitations have been resolved. The router (gateway) to the data center mainframe has been installed but not yet connected, due to similar wiring constraints.

The resulting inability to download the data contained on the mainframe has obviously hampered the office's ability to tap the power of computers. The installation of the LAN is a technological improvement for the assessor's office. It represents progress towards upgrading the office's productivity. The assessor's staff must have access to the mainframe data via the LAN before there can be any PC-based manipulation of the data.

We recommend that the assessor complete the LAN installation as soon as possible. This step is as important as replacing the mainframe computer. The LAN and the new mainframe system should work in tandem to allow staff access to assessment information.

#### Staff Computer Specialist and Clerical Support Positions

An MIS Specialist II position has been established to assist in the administration and development of computer technology in the assessor's office. However, the position is currently vacant; further, no support staff positions have been created to support this important function. The current installation and maintenance of the LAN and PC's is being done on a part-time basis by an auditor-appraiser on the assessor's business property staff who has acquired computer technology training on his own time and expense, while PC/LAN applications are being developed jointly by the assessor's staff and ISD staff. In-house training in use of the system, is currently being given by ISD.

We strongly recommend that the assessor fill the computer specialist position at once and assign support staff as needed to assist in this most important function of the San Francisco County Assessor's Office.

#### 4. Workload and Staffing

In order to determine the workload of the San Francisco Assessor's Office and the staff required to accomplish that workload, we relied primarily on A Report on Budgets,

Workloads, and Assessment Appeals Activities in California Assessors' Offices, 1993-94, dated July, 1995, that was issued by the California State Board of Equalization. This is a compilation and analysis of data by the Board's Assessment Standards Division from a questionnaire sent to all assessors. Based on our knowledge of assessors' offices through the assessment practices survey program, we chose counties we considered comparable to San Francisco in one or more important ways and compared their workload, staffing, and budgeting figures to those of San Francisco. The counties we selected for comparison were those that were known to have well-or excellently-run organizations. Again, this was determined from the most recent assessment practices surveys. We also consulted with key management people from several of the counties.

We caution the reader that we are not assuming that the staffing of the comparable counties are adequate or proper. In fact, in some instances it is evident that recent budget and staffing reductions in the comparable counties has severely strained the capabilities of those assessors to maintain an acceptable level of quality in their assessment programs. However, we do believe the comparisons show the minimum staffing necessary to operate a large urban county assessment operation in the State of California at a minimally acceptable quality level, and to be in substantial compliance with the myriad of laws and codes that govern that function. The reader should keep in mind that most of the comparable counties have in place data bases, systems, and procedures that are not available or in existence in the San Francisco Assessors' Office. Therefore, the figures ultimately presented as staffing requirements in the San Francisco Assessor's Office represent that which is necessary after the many improvements recommended in this report are made.

#### Total Budget Roll Units, and Roll Value

The first area of comparison that we made was in total budget roll units and roll value. This was done to establish a broad overview and to determine if staffing is adequate in light of the total assessment workload. As Chart I below shows, it appears that in total, the San Francisco County Assessor's Office is adequately funded and adequately staffed.

CHART I  
TOTAL BUDGET, ROLL UNITS AND ROLL VALUE COMPARISON, 1993-94

<u>County</u>	<u>Total Staff</u>	<u>Total Budget</u>	<u>Budget Per Staff Member</u>	<u>Total Roll Units</u>	<u>Roll Units per Staff</u>	<u>Total Roll Value</u>	<u>Roll Value per Staff</u>
Alameda	176	\$ 9.2	\$52,273	442,435	2,514	\$ 76.1	\$430
Contra Costa	126	\$ 7.6	\$60,317	352,458	2,797	\$ 63.7	\$500
San Diego	279	\$12.7	\$45,520	887,762	3,182	\$144.4	\$510
San Mateo	106	\$ 7.2	\$67,925	247,941	2,339	\$ 55.5	\$520
Santa Clara	250	\$14.4	\$57,600	485,865	1,943	\$110.6	\$1,000
Ventura	113	\$ 6.8	\$60,177	263,609	2,333	\$ 46.6	\$410
AVERAGE			\$57,302		2,518		\$561
San Francisco	97	\$ 6.1	\$62,877	221,724	2,286	\$ 57.7	\$590
		(in millions)				(in billions)	(in millions)

## Administration

To determine the level of administrative staffing necessary to manage a large and complex assessor's office, we compiled the data presented in Chart II below. We had to rely on the assessors' report and classifications, as we had no way to check their criteria. In the "Budgets and Workloads" report previously cited, the assessors reported a category described as "Assessors and Other Managers". This is the basis for our administrative staff comparisons.

It is apparent from Chart II that there are some reporting anomalies. For instance, San Diego and San Mateo Counties do not appear to count administrative staff in the same manner as other counties. Our own experience in these two counties showed this to be true. So, these two counties, at least, should not be considered part of this comparison. It is also apparent that even with the elimination of these two counties from the comparison, San Francisco County appears to have more administrative staff than the comparable counties. Since this comparison is not scientific and the reporting criteria subject to questions, we are not making a formal recommendation on this subject. We do, however, strongly urge the assessor to review the numbers presented herein and make any adjustments she deems necessary in light of her review.

CHART II  
COMPARISON OF ADMINISTRATIVE POSITIONS

<u>County</u>	<u>Number of Admin. Positions</u>	<u>Total Other Staff</u>	<u>No. of Staff Per Admin. Position</u>	<u>Total Roll Units</u>	<u>Total Roll Units Per Admin. Position</u>
Alameda	10	166	16.6	442,435	44,244
Contra Costa	7	119	17.0	352,458	50,351
San Diego	11	288	26.1	887,762	80,706
San Mateo	4	102	25.5	247,941	61,985
Santa Clara	11	239	21.7	485,865	44,170
Ventura	6	107	17.8	263,609	43,935
AVERAGE			20.8		54,232
San Francisco	7	90	12.9	221,724	31,675

## Real Property Appraisal Workload

We included in Chart III (following) those elements that we considered relevant to the real property appraisal staff. Other items are also worked by the real property appraisal staff (such as value declines, assessment reviews and appeals, etc.), but due to reporting problems and wide annual fluctuations, these items were not included. In the following chart it will be noted that in some categories Alameda and San Francisco Counties did not report. In the case of Alameda County we made allowances. In the case of San Francisco County, we had to drop that category for comparison. We also offered two sets of comparative numbers, one with and one

without San Diego County. The numbers from San Diego County were so far removed from those of the other counties that we felt them to be nonrepresentative.

After making the allowances just stated, it appears that San Francisco County is reasonably staffed with real property appraisers. For instance, the average number of real property appraisers per secured roll unit for the comparable counties is 5,843, while San Francisco has one real property appraiser for every 5,872 secured roll units. The average number of property transfers reappraised per real property appraiser for the comparable counties is 349, while San Francisco has one appraiser for every 320 real property transfers appraised.

We caution the reader that these are numbers of appraisers only. We had no way to make comparisons of appraiser experience, education and training, or ability. These are all items that could materially affect the productivity of the appraisal staff. And, San Francisco County has historically had more complex properties included in its reappraisal workload than most other counties.

### CHART III REAL PROPERTY WORKLOAD COMPARISON

<u>County</u>	<u>Real Property Appraisers</u>	<u>Secured Roll Units</u>	<u>Total Transfers</u>	<u>New Const. Units Appraised</u>	<u>R.P. Appr's per Secured Roll Unit</u>	<u>R.P. Appr's per Transfer</u>	<u>R.P. Appr's per New Const.</u>
Alameda	53	390,168	Not Reported	10,008	7,362	N/A	189
Contra Costa	52	297,224	19,905	14,107	5,716	383	271
San Diego	69	802,044	65,759	18,582	11,624	953	269
San Mateo	42	212,016	11,726	3,186	5,048	279	76
Santa Clara	76	420,517	29,200	9,784	5,533	384	129
Ventura	40	222,193	13,989	7,897	5,555	350	197
AVERAGE	(Excluding San Diego)				6,806	470	189
					5,843	349	172
San Francisco	29	170,282	9,270	Not Reported	5,872	320	N/A

#### Business Property Appraisal Workload

The comparisons we used for this area of the assessor's office workload centered on three of the major functions of a business property valuation unit: performing mandatory audits, processing business property statements, and valuing all business property accounts. In all three areas the San Francisco County Assessor's business property staff closely matches, in staff available for these required business property functions, those of the comparable counties. San Francisco County has less business property assessments per business property appraiser than the comparable counties. This is the result, no doubt, of the higher percentage of complex

business properties located in the county. Our review of the San Francisco County business property assessment program for this survey confirmed that the unit, though in need of some change and improvement, is doing a good job. Apparently, the number and ability of the staff fits the requirements of the task.

#### CHART IV BUSINESS PROPERTY WORKLOAD COMPARISON

<u>County</u>	Business Property Appraisers	Total Bus. Property Assmts.	Total Mandatory Audits	*Total Prop. Statements	Bus. Prop Assmts per B.P. Appr.	Mandatory Audits per B.P. Appr.	Prop. Statement per B.P. Appraiser
Alameda	27	52,382	1,900	30,588	1,940	70	1,134
Contra Costa	12	55,234	1,000	20,346	4,603	83	1,696
San Diego	30	98,686	3,151	60,818	3,290	105	2,027
San Mateo	15	36,183	1,170	24,376	2,412	78	1,625
Santa Clara	44	94,259	3,500	77,273	2,142	80	1,756
Ventura	11	40,483	900	22,432	3,680	82	2,039
AVERAGE					3,011	83	1,712
San Francisco	25	60,818	2,127	44,863	2,433	85	1,795

\*Includes direct billing accounts.

#### Clerical

We used three categories to compare the San Francisco Assessor's clerical staffing to those of the comparable counties. Chart V shows those comparisons. San Francisco's clerical complement closely matches the comparable counties in the categories of valuation staff to clerical staff ratio (1.5 valuation staff for every clerk in San Francisco compared to the average of 1.2), and clerks per roll unit (6,335 roll units for every clerk in San Francisco compared to the average of 6,926). In fact, it could be argued that San Francisco might be slightly over-staffed with clerks based on the comparisons in these two categories. However, in the third category of comparison, assessment roll value per clerk ratio, San Francisco is considerably higher than any of the comparable counties. This indicates the highly intensive development of the insular peninsula, with its many large and valuable properties. The San Francisco assessment roll is, on average, more valuable and more complex than most others.

Therefore, we conclude that considering the complex nature of the San Francisco assessment roll, the clerical function is not overstaffed as might be perceived from the first two categories discussed. We think that, on the whole, the number of clerical staff is probably about right for the tasks to be performed.

CHART V  
CLERICAL WORKLOAD COMPARISON

<u>County</u>	<u>Clerical Staff</u>	<u>Valuation Staff per Clerk</u>	<u>Clerks per Roll Value</u>	<u>Clerks per Roll Units</u>
Alameda	67	1.2	\$1.13	6,604
Contra Costa	46	1.4	\$1.38	7,662
San Diego	106	.9	\$1.36	8,375
San Mateo	38	1.5	\$1.46	6,525
Santa Clara	100	1.2	\$1.10	4,859
Ventura	35	1.5	\$1.21	7,532
AVERAGE		1.3	\$1.27	6,926
San Francisco	35	1.5	\$1.64	6,335

(in billions)

Cadastral and Other Technical Personnel

There is an apparent lack of staffing in the San Francisco County Assessor's Office in the area that we have termed Cadastral and Other Technical Personnel. Our conclusion is based on the data shown in Chart VI. For the cadastral drafting function the San Francisco Assessor has only one position, while the comparison chart indicated a need for about three. In the "Other Technical" category, the San Francisco Assessor has none, while the comparative chart indicates the need for four or five of these positions.

CHART VI  
CADASTRAL AND OTHER TECHNICAL PERSONNEL

<u>County</u>	<u>Cadastral Draftpersons</u>	<u>Other Tech and Prof.</u>	<u>Splits per Draftperson</u>	<u>New Lots per Draftperson</u>	<u>Roll Value per Tech Staff</u>	<u>Roll Units per Tech Staff</u>
Alameda	7	12	43	345	\$ 6.35	36,870
Contra Costa	5	4	82	447	\$15.92	88,115
San Mateo	3	4	57	172	\$13.87	61,985
Santa Clara	8	11	102	424	\$10.05	44,170
Ventura	14	7	220	112	\$ 6.08	37,658
AVERAGE			101	300	\$ 9.36	48,799
San Francisco	1	0	268	1,022	0	0

(in billions)

Indicated Need	3	5				
Need for						
San Francisco	(268+101)	(221,724+48,799)				
Assessor	or					
	(1,022+300)					

## Summary and Conclusions

Even after making allowances for some obvious reporting anomalies by the assessors, the comparative charts just presented indicate the two areas of staffing most in need of review by the San Francisco County Assessor. First, there is an indication that the assessor's office may have more administrative staff than is necessary; and, second, there is a definite lack of technical staff other than appraisers, such as computer technicians. Even though there are not enough "extra" administrative positions to reclassify to technical status to meet the indicated need, the assessor should pursue this as part of her future reorganization goals.

We are more concerned with the immediate need for the technical staff. Among the comparative counties used for this study are some of the best-managed large urban assessment operations in the state. The fact that the assessors of these programs have recognized the need for these technical personnel within their staffs should signal to the San Francisco Assessor the need in her office. In most businesses and industry, computer technology is becoming or has become the foundation for modern management. Assessor's operations in this state are no exception.

We urge the San Francisco County Assessor to consider the charts just presented when determining her immediate and future staffing needs. We strongly encourage her to contact the comparable assessors presented herein to hear their views and philosophies on managing a modern assessment operation. It has been chronicled long before this incumbent assessor took office, of the need for modern technology in the San Francisco County Assessor's Office. Along with that technology is the need for highly trained technicians to make the best use of it.

### 5. Time and Production Reporting

RECOMMENDATION 5: Further develop and improve the weekly production reporting system so that key workload categories can be measured and the resulting information used more effectively as a management tool.

Weekly production reports are now completed by all staff in the assessor's office. For many years no such reports were required from the staff. The reports are designed to capture the personnel hours each employee spent on key workloads, sick leave, and vacation. Currently there is no standard report format or a standard approach to identifying key workload categories. Each division creates its own report form and determines the workload categories on which to report. The reports are completed weekly by each staff member and provided to a person in each division who has been trained to enter the information into a data base program. The division chiefs can access only the information for their staff on the database. The executive-level manager of the office has access to information for all staff in the assessor's office and uses the information to analyze and prepare reports on sick leave and vacation usage. These reports are provided to the division chiefs.

Currently, no other reports are prepared from the compiled data due either to the inflexibility of the software program developed for the weekly production report process, or the

fact that data extraction programs have not been developed. Once the weekly data have been entered into the database program, it is not cross-referenced or manipulated to generate reports that display the data in different configurations (e.g., total hours expended by all employees is not available; each individual's weekly production report must be accessed and the totals added together manually).

Management in the assessor's office should work together to determine which workloads should be measured to provide them with the management information they need. When this is done, they should re-evaluate the current workload categories being used. The format of the weekly production reports for each division should be standardized to the extent possible. Additionally, management should identify the reports required to evaluate the effectiveness of their operations, by division as well as for the assessor's office as a whole. Any reports prepared on the analysis of workload and vacation and sick leave usage should be shared with the appropriate managers, supervisors, and staff. The weekly production report database program should be modified to perform the necessary cross-referencing and manipulation of the data to generate the required management reports.

Gathering the appropriate data for production measurement and analysis will provide management with information on where savings can be realized through better management of employees and reorganization of workflow. Once the weekly production report database program is modified to perform the necessary cross-referencing and manipulation of the data, the information can be used to help identify additional workload standards. After identifying standards and collecting the appropriate data to be measured, it will be possible to: (1) identify workload fluctuations, (2) determine personnel resource requirements, and (3) identify potential issues that may impact the office.

#### A Formalized Monthly Reporting System

The assessor's office presently completes and releases various reports to other governmental and private entities; however, there is no formalized internal status reporting system. Division chiefs send reports to the assessor when specifically asked about a particular subject. Without a structured reporting system in place, executive-level management is not consistently apprised of the activities within the various divisions or the status of special assignments.

Formalized reporting systems are designed as a management tool to (1) keep management updated on existing activities, (2) provide status reports on special assignments, (3) create a process for monitoring deadlines, and (4) identify any potential opportunities or threats that may impact the timely completion of critical workload.

We recommend that the assessor develop and implement a monthly management reporting system for each division to report on the status of special assignments and any new issues that may impact the division's work or other aspects of the assessor's office. Once the division's reports are received, they should be consolidated into one Assessor's Office Monthly Report, which should be distributed to the assessor, all division chiefs, and appropriate staff.

A monthly report system will allow division management the opportunity to inform the assessor, other management, and staff of any special assignments on which they are working and the status of those assignments; provide a means of monitoring and following up on work for the assessor and division management; and provide the assessor with a standardized and up to date account of the assessor's office activities that can be shared with external governmental organizations and other public or private entities. Distribution of a consolidated report to all division chiefs and appropriate staff will serve as an excellent communication tool and will also show the collective efforts put forth by the entire assessor's office.

## C. PERSONNEL

### 1. Practices and Procedures

#### General

We reviewed the personnel system in the San Francisco County Assessor's Office based on a comparison of the assessor's office personnel system to the organization, systems, and operations in use for personnel by the State of California. Our findings are based mainly on our interview with the assessor's office executive assistant who acts as the assessor's chief of administration. The assessor's office is constrained by many more external controls than exist in the State system, including a strong union presence in the civil service system. However, several opportunities exist to improve and or enhance the effectiveness of the personnel program working within the constraints of the San Francisco City/County Civil Service Commission.

#### Background

The assessor has a yearly budget cycle that is approved by the mayor's office and the county board of supervisors. As a part of that cycle, money is approved that equates to a specified number of permanent civil service positions. Money for the annual budget is also approved for training of staff, equipment purchases, etc. The office has approval for approximately 107 budgeted positions for fiscal year 1995-96. The only special consideration which impacts the department hiring procedures is the Revenue and Taxation Code requirement that auditors and appraisers must qualify for and receive a State of California Appraiser's Certificate in accordance with the standards of the State Board of Equalization.

The City and County of San Francisco Civil Service Commission is the organizational body that provides the rules, regulations, and oversight of the personnel rules for county government. The Human Resources Department (HRD) administers the examinations and classification procedures for the county offices. Recent changes have made HRD a separate body from the Civil Service Commission requiring yet another source to receive personnel approvals. This is similar to the bifurcation of personnel administration between the State Personnel Board and the Department of Personnel Administration, which requires approval of some personnel transactions from two agencies instead of one.

It is unknown at this time what the impact of the split will bring to the county government, but a recent report by the Little Hoover Commission titled "Too Many Agencies, Too Many Rules: Reforming California Civil Service" documents the inefficiencies created through multiple agency involvement with personnel actions. For instance, in the San Francisco County personnel system, to backfill an existing position in the assessor's office, the documentation is sent to the mayor's office for approval, to the controller's office for funding approval, and then to the county HRD for approval of the level of the position and to order a list certification. This process takes a minimum of 60 days, even for straight refills of existing job vacancies with no change in duties. The assessor has little or no control over the personnel operating system due to the rules and oversight of external organizations. This report only mentions them to acknowledge the constraints under which the assessor must operate.

A major distinction between the county and state rules involves the selection process (examinations). The county civil service rules include specific language that is negotiated by each bargaining unit. The timing, language, and test content for examinations are included as actual regulations. State laws and rules only include language concerning unions as it impacts employees' appeal rights and benefit information. The county rules and subsequent restriction on hiring will be discussed later in the report.

### Recruitment

The assessor's recruitment policies and practices are dictated by the assessor's Affirmative Action Plan. The stated policy is to place advertisements in minority-owned newspapers, radios, and special interest groups of Third World peoples. The Human Resources Department in the City and County of San Francisco controls the application and examination process for all positions in the county. Media advertising is one element that should be included in an overall recruitment plan. These strategies should also include those college organizations, local associations, etc., that will provide job candidates who can qualify for the assessor office's vacancies.

### Selection-Job Vacancies Examinations

In the state civil service system, hiring for job vacancies can be achieved through several avenues; open lists established by competitive testing, using a list of promotional candidates, accepting applications from interested candidates in the same occupational field, accepting applications from interested candidates who are within 10 percent of a salary relationship, accepting applications from candidates in a non-related occupation field (position is temporarily "downgraded" until skills are achieved and an appointment can be made), etc.

Hiring in the San Francisco County personnel system is limited to the use of an employment list for the job vacancy. It starts when the assessor's office requests and then receives approval to fill a vacancy. The county Human Resources Department advertises the vacancy and certifies an employment list for that job. Only the candidates certified from the list are eligible to participate in a hiring interview for the vacant position. Hiring lists can be "rule of the name" where only the top three names are certified for appointment; or the list can be "rule of

the list" where anyone can be certified for employment. The determination of the type of list is driven by collective bargaining agreements. The majority of the lists used by the assessor's office are "rule of the list."

There is only one provision excepting use of an existing employment list. If the list has fewer than three names and the department requests not to use the list, then a "provisional" appointment can be made. This provisional appointment is a temporary person hired until a new list can be established through examination.

RECOMMENDATION 6: Initiate a review of the Civil Service Rules and Regulations to determine hiring options and opportunities available to establish programs unique and necessary to the assessor's office.

There are no lateral transfers to staff in the same class, no training and development assignments, no upward mobility assignments, etc., in the assessor's office. No one really knows if this is entirely decided by the laws and rules, or whether any flexibility exists to appoint a person from these types of activities if there is no employment list. For example, there was a high priority for an appraiser and no appraiser vacancy existed. The assessor's management wanted the flexibility to move a lesser priority position to the new appraiser priority. An auditor-appraiser employee agreed to change job classifications to get the appraisal experience. Under the county civil service rules, this apparently could not be accommodated, because all job vacancies are filled through a hiring list established by the examination process, even though there was no "position vacancy." A further review of the personnel hiring practices is needed to determine whether these restrictions are due to the civil service rules, or a perception of how the rules are interpreted. We recommend the assessor initiate a thorough review resulting in a summary report to her as soon as possible.

RECOMMENDATION 7: Review the possibility of obtaining additional delegation from the Human Resources Department for position classifications and examinations.

The classification testing and maintenance of employment lists are completely vested in the City and County of San Francisco through the Human Resources Department (HRD). This department is responsible to 60 different county agencies and over 26,000 employees. The HRD is pursuing decentralization of some functions to large departments such as the airport and public health agencies for classification and examination functions. The HRD is restricted in determining personnel issues based on the type of language in negotiated agreements made with each of the unions.

Another complication is the use of union stewards in the classification system. For instance, if paperwork is submitted by a department for a job vacancy and the staff at HRD do not agree, there is a perception it is due to a union practice instead of effective personnel management. This is different from the state civil service system, which designates staff who work on classification and pay issues as "confidential." A confidential rating in the state system equates to non-representation by a union.

With increased delegations, the assessor's office would have more control over the approval process for filling job vacancies, resulting in a quicker and more efficient process. The assessor may want to consider reviewing the laws and rules to determine the appropriateness of a job steward analyzing and approving job position requests and classification levels.

### Orientation

An orientation package is given to new employees. The package contains information from the county Civil Service Commission on employee benefits, a copy of the laws and rules of the civil service system, and a welcome letter from the assessor. There is no written requirement or instructions for supervisors to orient new employees.

We suggest that a checklist for the orientation procedure be established to ensure full implementation. Supervisors should be required to personally provide orientation to new staff. And, the assessor should consider expanding the package data to include a map of the work facility, who is authorized to sign documents, phone numbers, etc.

## 2. Employee Training

RECOMMENDATION 8: Develop and adhere to a training plan for certificated appraisal and audit-appraisal staff.

Section 670 of the Revenue and Taxation Code provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board of Equalization. Section 671 further provides that all appraisers shall complete at least 12 or 24 hours of training each fiscal year in order to retain such a certificate.

This requirement of law has been ignored for many years in the San Francisco County Assessor's Office. As of July 1, 1994, two of the 59 appraisers on staff had training hour deficiencies that exceeded 200 hours; 12 were deficient between 50 and 200 hours; and seven were deficient between 24 and 50 hours. Overall, 40 percent of the appraisers had training deficiencies. This cumulative deficiency represents an egregious failure to maintain trained staff as required by law.

A closer review of this problem revealed two mitigating circumstances:

- (1) prior to the commencement of our fieldwork for this survey in June of 1995, much of the training the appraisers had actually received had never been reported to the Board of Equalization so that it could be credited to the deficient employees; and
- (2) a significant number of San Francisco County's appraisers qualify for advanced certification but have not applied for it.

Regarding the first condition, the assessor's office has been annually notified of training deficiencies for particular employees through the mailing of training reports that indicate training taken and surplus hours available to satisfy future training requirements. But apparently there has been no consistent oversight of the training status of employees. Any training taken but not reported to the Board should have been brought to the attention of ASD staff long ago, but was not. (We should note that after our fieldwork began, San Francisco reported numerous computer training courses taken by employees, which qualify for SBE training credit.)

Regarding advanced certification, we found in our review that only one employee currently has advanced certification and thus is required to take only 12 hours of training each year instead of 24 hours that is required of employees having basic certification. In fact, at least 10 other appraisers qualify for this reduced training requirement through advanced certification, but have not applied for it. Another seven employees will qualify for advanced certification as soon as they successfully complete one more advanced State Board of Equalization course (i.e., one with a prerequisite and that is of a specialized nature)

In view of the complexity of many properties in San Francisco County, it is more than surprising to find that so little attention has been paid in the past to professional training. One would expect to find San Francisco County's appraisers in the forefront of complex property valuation issues, but this is not true. (Elsewhere in this report, this lack of training and knowledge is discussed under the headings of Assessment Appeals and Major Properties.) The fact is that under prior assessors' administrations, training was given very low priority. Hence, no formal tracking of employees' progress occurred, no career development plans were devised and followed through, and no serious thought was given to quantity and quality of training when promotions were made.

The current assessor takes the training requirement imposed by the law seriously and has demonstrated her commitment through efforts to procure funds, time off, reimbursement for books and fees, and any other support she has been able to muster for the staff in their efforts to attain current training status. Her immediate success is evidenced by the 563 hours of appraiser training completed by the staff in the first quarter of fiscal year 1995-96. Approximately 1,370 hours annually are required simply to maintain the status quo. It is easy to see this is a problem not easily rectified. (Although there is a small amount of funding available through the union contract for appraiser and auditor-appraiser training, it is insufficient).

We recommend that the assessor centralize responsibility for monitoring training status in the assessment standards division and require regular reports from the chief of this division to keep her apprised of changes in employee training status. She should insure that any qualifying training is promptly reported to the Board so that records can be accurately maintained. She should formally set the goal of having all of her appraisers and auditor-appraisers qualify for advanced certification, both as evidence of their professional knowledge and to minimize future annual training needs and expenses. She has made her certified staff understand that unless they remedy their training deficiencies, they will not be allowed to perform appraisals or audits involving value judgments. If the present condition persists, the

assessor and her managers should document that certain employees cannot perform the duties of their job classification and should take whatever corrective actions are necessary.

**RECOMMENDATION 9:** Cross-train and rotate the clerical staff and the assessment clerk staff in the real property and personal property divisions to optimize the use of existing resources.

The clerk typist, senior clerk typist, and assessment clerk classifications are currently being used by both the real property and personal property divisions. The clerks and typist work strictly within their own division and do not provide back up support to the other division when one has a reduced workload and the other has its peak workload period.

While this practice enables the clerks and typists to thoroughly learn the specifics of their division's business, they are not knowledgeable about the other division's work. Consequently, the staff in one division cannot provide back up resources to the other during peak workload periods or lengthy employee absences, such as illness, jury duty, etc.

We recommend that the clerk typist, senior clerk typist, and assessment clerk staff in the real property and personal property divisions be cross trained to be able to perform the duties of their class in either division. A rotational schedule should be developed to provide them with the opportunity to work in and learn the specialties of each division.

Cross training the staff in these classifications to perform typist or assessment clerk duties in both the real property and personal property divisions will allow the assessor's office to rotate them as needed to provide adequate staffing. It will also provide staff with the opportunity to enhance their skills, expand their knowledge of property tax assessments and the organization, and improve their opportunities for advancement. In addition, it will improve communication between the staff in those divisions and provide them with a better understanding and appreciation of each other and the work they perform.

## **D. ASSESSMENT APPEALS**

### Overview

The workload of assessment appeals in the San Francisco County Assessor's Office has increased enormously since we published our prior assessment practices survey in 1990. Beginning in 1990, the real estate market throughout California fell sharply from the steeply inflated prices that had become the norm for real property, particularly in urban areas. This wholesale decline in market value resulted in many properties being assessed at factored base year values that exceeded their current market value as of March 1 each year. This condition caused many property owners to seek relief through "Proposition 8" assessment reductions, which require the assessor's staff to determine current market value for the lien date applicable to a given fiscal year.

In San Francisco City and County, assessment appeals are handled by two appointed assessment appeal boards of three persons each, with alternate members, and nine hearing officers. Board No. 1 hears applications for reduction affecting any property on the secured or unsecured rolls without limitation. Board No. 2 hears applications for reduction only for property on the secured or unsecured rolls assessed at less than \$20 million, excluding certain mixed-use commercial/residential property of 12 units or less, and personal property or possessory interests assessed for \$75,000 or less on the unsecured roll. Hearing officers handle only less complex properties (single-family residences, condominiums, cooperative housing units, or multiple-family dwellings of four units or less). An appellant may reject the hearing officer's recommendation and instead request an assessment appeals board hearing. A hearing fee is charged on a sliding-scale basis for properties assessed at over \$250,000, while a non-refundable \$30 filing fee is charged for all applications for reduction.

For the 1993-94 assessment year, about 6,500 assessment appeals were filed. For 1994-95, about 3,300 were filed. These two years represent a vast increase over 1992-93, when only about 900 appeals were filed. This increase has greatly impacted the assessor's office. Because the assessor made it top priority to complete the processing of the appeals backlog, other basic assessment duties such as reappraising some transferred properties and enrolling most new construction have been put on hold.

The vast majority of the appeals involve residential property (about 5,500 of the 1993-94 appeals were residential) and these are handled entirely by the assessor's staff. Assessment Appeals Board (AAB) cases for the more complex commercial and industrial properties, however, are presented by either the assessor's experienced commercial appraisers (principals or seniors) or hired contract appraisers.

The large-scale use of hired independent contract appraisers to defend the assessor's values is unique to San Francisco County. It resulted from a budget analysis done by an accountancy firm that recommended \$500,000 in special funding for contract appraisals and support staff to handle the 1993-94 assessment appeals workload. The first contracts were signed in February of 1994. Although there were originally as many as 15 contract appraisers involved, now there are only 11. For 1992-93, there were 35 appraisals assigned to the independent contractors; for 1993-94, 310, and for 1994-95, only 25 had been assigned by July 1995 (funds ran out). However, for fiscal year 1995-96, the assessor's office received \$150,000 in additional funding to pay for more contract appraisals.

Assigning appeals cases to hired appraisers from outside the assessor's office is only a stopgap measure that does not address the long-term problem of efficient assessment appeals processing. Even with the help of outside appraisers, the assessor has not conquered the appeals backlog. Unworked appeals remain from 1992, 1993, and 1994, and several thousand more filings were anticipated for the 1995-96 filing period of July 2 - September 15.

As of June 1, 1995, for the 1993-94 appeals of property assessed for more than \$5 million, the board-found values differed from the contract appraisers' values by nearly \$44 million in 24 appeals or an average difference of about \$1.8 million. Board-found values for

appeals presented by the assessor's own staff showed a net difference of nearly \$13 million for 10 appeals, an average difference of about \$1.3 million.

Extending this comparison to all properties for which the 1993-94 assessment was appealed, as of February 28, 1995, the assessor's staff had presented 5,120 appeals of assessments totaling \$3,307,132,371. The boards and hearing officers set values totaling \$2,871,131,666, for an overall value loss of \$436,000,705, which is an average 13 percent reduction in value for these appealed properties. By contrast, the contract appraisers had presented 113 appeals of assessed values totaling \$3,589,559,482, for which the assessment appeals boards found values totaling \$2,699,332,700. This equaled an average reduction granted by the boards of nearly 25 percent of the assessed value.

As of September 1994, the average cost for each of the 133 appraisals completed by nine contract appraisers was slightly over \$2,000, which represented an average of 60 hours spent on each appraisal.

Overall, of 186 appeals of 1993-94 assessed values exceeding \$5 million, the assessment appeals boards concurred with the assessor's values in 79 percent of the cases, found lower values in 5 percent, and found higher values in 16 percent. Taking into account 1992-93 and 1994-95 appeals heard to date (approximately 5,300), though, the overall percentage of board agreement with the assessor's values (whether presented by staff or hired appraisers) improves to 88 percent, with the boards finding different values in only 12 percent of all appeals.

Although the assessment appeals boards have largely concurred with the assessor's recommended values, it must be remembered that the assessor usually recommends a value below the enrolled assessed value. That is the nature of a "Proposition 8" situation; the value of real property has fallen, and the assessor's staff must measure this loss in value in their lien date appraisal. So, even though the assessor prevails in the vast majority of assessment appeals, the resulting board-found values still produce massive reductions in value: \$1.561 billion in assessed value was lost from the 1992-93 roll due to assessment appeals reductions, and \$6.086 billion from the 1993-94 roll. And of course, further large decreases will follow as the assessor processes the remainder of the appeals for 1992, 1993, and 1994, and addresses the 1995-96 filings as well.

The administration of the assessment appeal function in the San Francisco County Assessor's Office has much room for improvement. The following recommendation deals with remedying these deficiencies.

RECOMMENDATION 10: Upgrade the administration of assessment appeals by: (1) increasing control over appraisal records; (2) developing and presenting training specifically for the assessment appeal function; and (3) acquiring and employing computer-operated software including an AAB program, income capitalization models, and appraisal forms.

## Control of Records

The city attorney designed the contract used to assign individual appraisals to contractors. (The original contracts did not contain any provision requiring that the contract appraisers be certified by the State Board of Equalization as required by the Revenue and Taxation Code to make property appraisals for property tax purposes. This means that all of the values established by the appraisers under those contracts are technically ineligible for enrollment until they are reviewed and approved (in writing) by a certified property tax appraiser. The contracts now in use include a proper certification requirement.) It contains all the necessary features to protect both the taxpayer and the county, including a confidentiality clause that binds the contractor to hold all information in secret. However, the assessor allows the contractors to remove the assessor's original appraisal files and all accompanying documentation from the assessor's office to use in preparing their appeals presentations. This is not good policy. The security and integrity of all the assessor's files must be insured. To this end, original records should never be loaned out for extended periods. In-office examination and photocopying of essential portions if necessary should be permitted, but nothing more. We strongly recommend that contract appraisers not be allowed to remove original files and accompanying documentation from the assessor's office.

## Training in Assessment Appeal Presentation

We noted the following deficiencies in the assessor's staff's presentations before the assessment appeals board:

- (1) The assessor's representative was sometimes not familiar with the property, its history, the comparable sales used to value the subject property, or even how the subject's assessed value had been determined;
- (2) The assessor's representative often strayed from a dispassionate presentation of the process used to value the subject property to heated and acrimonious debate with the property owner's representative and/or members of the assessment appeals board;
- (3) The assessor's representative frequently professed that the assessor's appraisal records were lost or temporarily unavailable.

Our overall impression is that the assessor's staff needs to present assessment appeals in a more organized fashion, with better preparation. The San Francisco County Assessor's Office has a lengthy history of poor appraisal record documentation, minimal record security, and low quality standards for its appraisal files. These pre existing "bad habits" adversely affect the presentation of appeals board cases.

We recommend that the following steps be taken to improve the staff's performance of the assessment appeal function:

- (1) The assessor should identify the most experienced appraisers in her office, regardless of job title, and assign them to a special AAB unit. This unit should handle the complex property presentations.
- (2) The assessment standards unit should create and present to this elite AAB team training in all aspects of assessment appeals presentation, stressing the appropriate Property Tax Rules and how to deliver convincing testimony. The training should include mock hearings with role playing, critiquing, and feedback to all participants. It should also emphasize thorough preparation. (Some training has recently been conducted, but much more is needed.)
- (3) Once a hearing is set for a date certain, the appraisal record should be located. Many of the assessor's records cannot be located due to nonexistent record security, but even those that can be found are often so scrambled that it is impossible to decipher the property's history. Therefore, a brief summary of the base year value and most recent reappraisal should always be prepared and offered as an exhibit for board members.

With proper training of the right people, the assessor can develop and maintain an effective assessment appeals unit. She should initially strive to lessen, and eventually eliminate the reliance upon contract appraisers. The staff should be able to handle their own appeals.

The number of assessment appeals per appraiser is not as high in San Francisco County as it is in several other counties, yet other counties "farm out" few if any of their assessment appeals cases. For instance, Los Angeles County is coping with about 60,000 appeals for 1993-94 with fewer than 400 appraisers (about 150+ appeals per appraiser); and Alameda County, with 50+ appraisers, is managing in excess of 15,000 appeals (300 appeals per appraiser). With 6,500 appeals for 1993-94, and 3,300 for 1994-95, San Francisco is running between 100 and 200 appeals for each of its 30+ appraisers and falling behind even with contract appraisals.

#### Enlist Computer Support for Appeal Preparation

The assessor's staff prepare individual stapled documents for use in assessment appeals presentations. These include the usual data about the subject property, comparable sales, several approaches to value, and reconciliation into a final value indicator. However, they are of varying quality, and their detail and completeness vary from appraiser to appraiser. There seems to be no standard format for presentation of data.

The assessor subscribes to a market comparable publication that lists sales and listings of commercial and multi-residential properties in San Francisco. While this is a useful adjunct to the assessor's own sales data, it should not supplant it. We observed that the appraisal staff are not always familiar with the transactions involving properties listed in the publication.

In order to build a comprehensive database for income-producing properties, the assessor's staff should aggressively solicit data from all principals involved in buying and selling real property in San Francisco. To date, staff have not been insistent enough on acquiring this information and sorting it into usable form. The Change in Ownership Statement (COS) is a valuable tool to use in this regard if the transferee has elected not to file a Preliminary Change of Ownership Report (PCOR). The judicious use of the COS in conjunction with penalties for failure to file can work wonders in helping the assessor's office get the information it needs to build an appraisal data base for income-producing properties. And, income and expense questionnaires are also an important adjunct to the change in ownership statements. Staff should insist on completion and return of these forms. Armed with their own current economic data, the assessor's representatives could make more convincing assessment appeals presentations and could successfully challenge comparable data introduced by the property owner's representative.

To modernize the appeal function will require not only improved data collection, but also extensive computerization. San Francisco has a large number of income-producing properties (complex retail and commercial properties and apartments) and homogeneous housing (row housing, condominiums, etc.). PC's lend themselves to preparation of AAB presentations. The staff currently have only limited sales information accessible on a local area network (LAN). Much more is needed to do justice to the appeal process.

The assessor should acquire specialized software related to preparing assessment appeals presentations. These should include income capitalization and rate extraction models, discounted cash flow analysis, a cash equivalence program, sales spread sheets, and form letters and questionnaires used to correspond with buyers and sellers of income-producing properties.

Since the assessor does not have resources on staff to internally develop such programs for the office, we recommend that she contact other California counties that have developed such programs. There are several good formats available. These programs, having been developed expressly for use in county assessors' office in California, would require less fine tuning than proprietary software. (Los Angeles, Alameda, and Marin Counties are some of the leaders in this area.)

These automated programs also offer great managerial flexibility; that is, some of them allow different levels of clerical staff involvement in the overall production of appeal cases. Enlisting the support of assessment clerks in the appeal process would free up much appraiser time and should increase production.

We recommend that the San Francisco County Assessor acquire computer programs that will streamline the assessment appeal function and make full use of the large complement of PC's recently received in the office.

## E. PROGRAMS

### 1. Property Tax Exemptions

a. Introduction

The property tax exemption program in the San Francisco County Assessor's Office is administered by the chief of technical services and four assessment clerks. For the 1994-95 roll, this staff processed exemptions totaling \$2.6 billion in assessed value, or 4.75 percent of the total roll for that year.

Our review of the exemption program indicated that there are numerous deficiencies, which are addressed by the following comments and recommendations.

b. Written Procedures

For the 1995-96 filing period for the welfare exemption, many of the claims forwarded to the Board's Assessment Standards Division by the San Francisco County Assessor's Office had one or more problems related to inconsistent processing in the county office. Our interviews with the welfare exemption staff disclosed that they relied on infrequent written memos and verbal instructions from supervisors to process exemptions, and had differing understandings of correct procedures. There is no comprehensive set of written procedures to guide the staff in processing any exemption claim.

As a first step in achieving statutory correctness and consistency, a formal procedures manual should be drafted and used in daily exemption processing.

c. Homeowners' Exemption

Homeowners' exemptions form the bulk of the exemption program workload and affect the greatest number of properties. For the 1994-95 roll, the county processed 96,748 homeowners' exemption claims affecting \$677.2 million in assessed value. Our review of the homeowners' exemption claims included examination of a representative sampling of claims to verify that they were properly processed, in compliance with tax laws, and that any change in the property ownership was reflected in the exemption files.

Our review of the homeowners' exemption claims indicated that the staff is doing a satisfactory job of processing the claims. However, there are two areas in need of improvement that are the subject of the following recommendation.

SUGGESTION 1: Revise homeowners' exemption procedures by: (1) more timely identification of homeowners eligible for the exemption on newly created condominium parcels; and (2) requiring that the financial statements, Articles of Incorporation, and contracts of sale are included with the initial filing of a cooperative housing claim.

## New Condominium Parcels

There are lengthy delays in the mailing of the homeowners' exemption claim forms to owners of new condominium units. The main reason for the delays is that the homeowners' exemption unit is not keeping current with changes in ownership on new parcels. This is especially true for condominiums on new parcels. The assessor's office will discover months later that the property has changed title and the new owners may be eligible for the homeowners' exemption. Those homeowners' exemption claims not filed in a timely manner will require tax roll correction.

We recommend that the assessor's office implement a procedure to identify eligible homeowners and process their homeowners' exemption claims in a timely manner. Such a procedure would save much time now spent in costly roll corrections.

## Housing Cooperatives

We noted in our 1977 survey report that the assessor's office did not require the filing of the "Homeowners' Property Tax Exemption Cooperative Housing Information Request," Form AH 266D. This unacceptable practice continues under the present administration.

Form AH 266D, as well as an endorsed copy of the articles of incorporation and a financial statement, must be filed by housing cooperatives when they initially seek homeowners' exemptions on individual units. To correctly administer the homeowners' exemption in a housing cooperative, the assessor must determine the rights of occupancy held by each member of the cooperative. The assessor may ask for the bylaws and occupancy agreements to help determine those rights of occupancy.

We recommend that the exemption staff require proper documentation before granting homeowners' exemptions to individual units in housing cooperatives.

### d. Welfare Exemption

The welfare exemption grants a property tax exemption to properties that are owned by qualified nonprofit organizations and used exclusively for religious, charitable, hospital, and/or scientific purposes. Our review of the welfare exemption claims in the San Francisco County Assessor's Office indicated that much improvement is needed.

RECOMMENDATION 11: Revise welfare exemption procedures as follows: (1) adhere to reporting and filing requirements for the welfare exemption; (2) do not declare to a claimant that a welfare claim has been approved until the claim has been ratified by the Board; (3) expedite the processing of new welfare exemption claims; (4) forward a list of welfare claimants and their exemption status to the business property division; (5) train staff to process the abbreviated welfare

exemption claim form; and (6) date-stamp exemption claims forms when received in the assessor's office.

### Reporting and Filing Requirements

Our review of the welfare exemption claims indicated that the assessor's staff needs to review the reporting requirements and inspect the claims more carefully. Some field inspection reports submitted by the assessor's office recommended a full exemption, even though the inspections disclosed an operator with taxable operations, the claims were filed late, or operators had failed to file and qualify for the exemption. These observations indicate a lack of attention on the part of the assessor's staff.

Reviewing the exemption claims includes verification that the claim is timely, complete, all the questions are answered, the requirements for the exemption have been met, supporting documents are attached, and other activities and operators on the same property have been properly noted. Since qualification for the welfare exemption can be affected by outside organizations using the property for unrelated activities, it is essential that the staff carefully review Section B of the welfare exemption claim form, AH 267.

We recommend that the exemptions staff carefully review and follow up on all discrepancies noted on welfare exemption claims filed with the assessor's office.

### Approval of Welfare Exemption Claims

The Board's Assessment Standards Division (ASD) received from the assessor's office the welfare claims of a particular claimant for the years of 1991, 1992, 1993, and 1994 on July 27, 1994. The claims were submitted for a low-income housing project located on land acquired in September, 1990. When an ASD staff member contacted the claimant concerning the property, the claimant said that the county had assured him that all of the claims had been approved.

The pronouncement of approval for the welfare claim before ratification by the Board is contrary to accepted exemption procedures. Revenue and Taxation Code Section 254.5 provides that the Board is charged with the administration of the welfare exemption. The approval process includes a preliminary review and recommendation by the county, but final approval is reserved to the Board. The assessor may deny a welfare claim that has been approved by the Board, but the assessor may not grant approval to a claimant whom the Board has found ineligible.

We recommend that the assessor's staff make no statements to welfare claimants regarding eligibility until ASD has notified the assessor's office of its finding.

## Expedite New Claims Processing

Under current procedures used to process the welfare exemptions in the San Francisco County Assessor's Office, processing new claims takes an extraordinary amount of time. The assessor's welfare exemption process usually begins with the mailing out of the welfare claim forms in January, followed by enrollment of the exemption in July.

The undue delays in the processing of new applications of the welfare exemptions for various properties results from two main causes. First, when incomplete claims are filed, they must be returned to the claimant for completion, which creates a delay. Secondly, it is the assessor's policy to require a field inspection by the appraisal staff of newly exempted properties before further processing of the claims may occur, and in many cases these field inspections are not completed in a timely fashion. These conditions have led to claims pending in the assessor's office for more than a year without enrollment of the exemption.

There are additional delays in the enrollment of the exemptions, even after approval of the claims. The enrollment of approved exemptions on the unsecured tax roll is a lengthy process because the unsecured values are located by assessment number. The assessment number is assigned according to the order in which the assessments are entered on the unsecured tax roll. This assessment number changes each year. Therefore, to match exemption to enrolled value, the current assessment number of exempt properties must be specifically identified for each welfare claimant, a very time-consuming process.

We recommend that after a reasonable amount of time, any incomplete claim be sent to the Board's Assessment Standards Division with a recommendation of denial. This would complete the processing of the claim and result in a finding sheet noting defects being sent to the claimant.

The real property appraisal unit has assigned a specific person to inspect exempt properties, and this has helped them complete field inspections for the exemption unit within a few months. However, the business property appraisal unit has not made the inspection a priority and some requests for physical inspections are years old. We therefore recommend that the business property division immediately complete its backlog of field inspections of claimants' properties and assign a specific individual to make all inspections.

Finally, new claims may be delayed even though a physical appraisal has been completed because it is the assessor's policy that the field inspection report must be approved by the supervisor of the exemption unit before the processing of the claim may be completed, and such approval is often not given in a timely fashion. We recommend that the assessor instruct the exemption supervisor to assign a high priority to approving new welfare exemptions once all preliminary work has been completed.

## Transmit Current Exemption Information to the Business Property Division in a Timely Manner

Currently, the assessor's procedure is that if the exemption clerk has indicated on the business property statement filed by the claimant in the prior year that the property qualified for the welfare exemption, the business property staff will carry the exemption forward to the unsecured assessment roll being prepared. Any change to the exemption status from the prior year is effected by a correction to the tax roll, which may not be made until many months after the roll is turned over to the county auditor.

The assessor's staff generates large numbers of roll corrections each year. Most of these roll corrections could be avoided if there was timely verification that the property qualified for the welfare exemption, whether for the first time or on a continuing basis. We therefore recommend that the business property division match the current exemptions with current assessments before the values are enrolled. This will reduce the number of roll corrections.

## Processing the Abbreviated Claim Form

The shortened version of the welfare exemption claim form, AH 267A, is a one-page, five-part form designed to eliminate paperwork and reduce the amount of time needed to review a claim. The form was intended to be used by welfare claimants who file annually and who received a full exemption in the previous year. This form has been in general use by other counties since 1994. In that year, the staff of the Board's Assessment Standards Division presented workshops around the state which included, among other topics, instructions on the proper processing of the new one-page exemption claim form.

The San Francisco County Assessor's exemption staff began using this new form in 1995. Many of the forms that were forwarded to ASD had not been properly processed by the assessor's staff. The mistakes varied. A large number of the claim forms were returned to the assessor's office for additional processing. The staff must be trained in the proper use of these claim forms.

## Date-Stamp Exemption Claim Forms

In some instances where property owners had not filed timely for the welfare exemption, it appeared that the exemptions staff had back dated the application to avoid the late filing penalty. This is inappropriate. The date a claim is received by the assessor's office is important because it determines whether the claim was filed timely. Revenue and Taxation Code Section 270 requires the assessor to apply a late filing penalty if the claimant files after the due date. By date-stamping the claims as they are received, the assessor has documentation to establish when the claim was received and whether a penalty should be applied.

We recommend that all claim forms be promptly date-stamped when received.

e. Other Property Tax Exemptions

The category of "other" property tax exemptions includes veterans', disabled veterans', church, college, cemetery, public school, library, museum, documented vessel, and lessor's exemption. In 1994-95, 68 such miscellaneous claims were filed affecting a total of \$216 million in assessed value. Our review of exemptions in this category indicated problem areas that are addressed in the following recommendation.

RECOMMENDATION 12: Make improvements to the property tax exemption program in the areas of lessor's exemptions, nonprofit organizations, equipment leased to exempt organizations, and the processing of claim forms.

Lessor's Exemption

Our review of the college exemption claims indicated that the assessor's staff has confused the college exemption and the lessor's exemption. Various lessor's exemption claims were found in the college exemption files. Because the qualifications for the college exemption and the lessor's exemption are different, filed claims for each type should be maintained separately. Also, if the lessor is a for profit entity, the appraisal units need to be informed that the property is leased to a nonprofit entity and may be eligible for exemption from property taxation.

Nonprofit Organizations

Section 202.2 of the Revenue and Taxation Code provides that any exemption from property taxes for leased property shall benefit the qualifying nonprofit organization leasing the property. The qualifying organizations include free public libraries, free museums, nonprofit colleges, and public schools. Section 206.2 of the Revenue and Taxation Code provides a similar exemption for property leased to a church. If the lease agreement doesn't recognize a reduction in the rental payments because of the exemption, then the lessee may file a claim for a refund of taxes paid.

Currently, there is no formal procedure in the assessor's office for handling property leased to qualified organizations. As a result, incorrect processing of the lessor's exemption has resulted. This had included the failure to review leases to determine how to pass on the benefits of the exemption to the eligible lessee.

We recommend that the assessor's exemption and appraisal units identify the lessor, lessee, location of property leased to institutions qualifying for property tax exemption, and then review the lease agreement to determine whether the benefit of tax exemption accrues to the qualified lessee.

## Equipment Leased to Exempt Organizations

Our review of the free museum, free library, church, college, and school exemption claims indicated that some nonprofit organizations may be leasing personal property from lessors and that this property may qualify for an exemption, but that neither the real nor the business property appraisal units are aware of this fact. This situation existed at the time of fieldwork for our 1983 survey, and was the subject of a recommendation in that report. We repeat it here because there has been no improvement.

Unless this information is forwarded, the business property appraisal unit may not be aware that a particular lessor has any property located in the county. The lessor may have other property out on lease that is subject to assessment. The business property division should be notified of this so they can identify and enroll this assessable property.

We recommend that the assessor direct her exemptions staff to forward to the business property division all information received regarding business personal property leased to qualifying exempt institutions.

## Processing Claim Forms

We found instances where the assessor accepted incomplete exemption claims and granted the exemption. This is contrary to the law. Each claim must be reviewed carefully before the exemption is approved. For example, the assessor must determine whether museums and libraries seeking exemption are free and open to the general public on a regularly scheduled basis. Also, the lessor's exemption claim may be filed by either the lessor or the lessee, but the lessee must validate that the property is used exclusively for exempt purposes. And, in no instance may the assessor grant an exemption if the claim is incomplete or unsigned by the claimant.

We recommend that the exemption staff accept only properly completed and signed claim forms for all miscellaneous exemptions.

### 2. Declines in Values (Proposition 8)

In our 1990 assessment practices survey, we recommended that the assessor's staff monitor "Proposition 8" properties more closely. Our review for that survey showed that values had been reduced for a number of larger properties because their market values had fallen to a level below their factored base year values. In years subsequent to the initial reduction, there was no systematic, formal program for reviewing all such "frozen" values. In fact, in many cases the reduced value was erroneously adjusted in later years by the inflation index.

The assessor who was then the incumbent replied that his office had devised a computer program to list all "Proposition 8" properties and that the appraisers would review this list for each lien date to determine whether value increases were warranted. However, in the last five years there has been no systematic annual review of properties in "Proposition 8" status. As

of March 1, 1995, there were 28,339 properties on the roll with declining values. These properties, to which codes "J" or "R" have been assigned in the computer data base, have not been subject to the incorrect inflation indexing referred to above since the 1994-95 roll. This change is positive and we commend it. However, the real problem, the lack of systematic review, still has not been addressed, notwithstanding the previous assessor's assurance to the contrary in 1990.

Unless a property owner has filed an assessment appeal pursuant to "Proposition 8" for consecutive years, there is little chance that the reduced value will be scrutinized in the following assessment year.

RECOMMENDATION 13: Review "Proposition 8" values on a regular basis.

Although the present assessor's managers can now identify all "Proposition 8" encoded properties and produce an edit listing of such properties on demand, this has not solved the problem of reviewing market values for the approximately 9,000 properties with values reduced on the 1990-91 assessment roll. These values were erroneously indexed for inflation in 1992 and 1993. Since 1994 their values have been frozen and have not been reviewed for further adjustment.

The incumbent assessor must insist that the appraisal staff annually review the values that have been reduced. The situation that has existed since before 1990 cannot be allowed to continue. The systematic review of all properties that are on the assessment roll at a "Proposition 8" reduced value should be given the same appraisal priority and attention as a property that changes ownership or is newly constructed. The results of inaction in any of these cases would be the same--inaccurate and improper assessments.

### 3. Roll Changes

RECOMMENDATION 14: Establish and implement a procedural policy for roll corrections that includes: (1) reviews of change in ownership statements to identify principal places of residence; (2) documentation of appraisal records that a roll correction is authorized; and (3) consolidation of the various roll value correction forms that are now being used.

Section 4831 of the Revenue and Taxation Code authorizes roll corrections for non-judgmental errors, under specified conditions. As of July 1, 1995, it also allows roll corrections to reflect declines in lien date values ("Proposition 8") that were not made timely.

Our review disclosed that the reasons for roll changes are not documented on the San Francisco County Assessor's appraisal records. Our concern is that roll correction procedures may be used to make roll changes in situations where they are not permitted by law.

## Homeowners' Exemption

Of the approximately 3,000 roll corrections, excluding those related to assessment appeals, that were made during 1994 in the San Francisco Assessor's Office, approximately 60 percent involved homeowners' exemption corrections. Either people had filed for multiple homeowners' exemptions, sold their homes and did not notify the assessor's office, or the purchasers of new homes applied for a homeowners' exemption after the property had already been valued by the county and placed on the assessment roll.

The assessor's office has little control over applicants of multiple homeowners' exemptions. The State Board of Equalization maintains a listing, by social security number, of all people who have applied for and are receiving a homeowners' exemption. When a multiple file is discovered, each county in which an application is filed is notified.

The assessor can reduce the number of roll corrections by changing the homeowners' exemption procedures. Whenever the review of the change in ownership statement indicates that the transferee plans to use the property as a principal residence, the assessor should mail the transferee an application for a homeowners' exemption. A reasonable time should be allowed for the transferee to return the application. If the completed application is returned or the allowed time for returning the application expires, the transfer should then be forwarded to the real property section for reappraisal and ultimate enrollment. This procedure will preclude the present situation of having the real property appraiser reappraising the property and processing it for enrollment before the residence question has been answered. Many times, under the present system, the roll must be corrected because the reappraisal has already been done and then the residence issue necessitates a change. We recommend the assessor change the current procedure to the one we have outlined above.

## Documentation of Appraisal Records

We reviewed several appraisal files that had been subject to roll correction procedure. The major deficiency in nearly each case was the lack of documentation as to why the value was changed. On occasion the appraisal file would contain a letter from the taxpayer requesting a reduction in value. However, the assessor's appraisal staff seldom included any supporting information as to why a property value was reduced.

Invariably, when the real property appraisers were asked why a particular parcel was reduced in value, the answer was that they did not know or could not remember. Some of the roll changes we reviewed appeared to be unauthorized by any statutory authority. However, the documentation was so lacking that even this could not be determined. In some cases the assigned real property appraiser in fact did not make the reduction in value; the property value was reduced by the principal appraiser who put the real property appraiser's identification number on the change of value form because the property was located within the appraiser's area of responsibility.

We strongly recommend that the assessor establish a policy requiring the real property appraisers to fully document any roll corrections that are made. The documentation should include dates, reasons why the change is made, observations, and supporting data. In this manner the assessor can insure the integrity of the appraisal roll. Furthermore, in no case should anyone be allowed to enter another's identification number. The person who made the value judgment should always enter his or her own identification number.

#### Roll Value Change Forms

Currently the assessor's office utilizes four different forms to change values on the assessment roll: field worksheet, supplemental worksheet, escape assessment worksheet, and a worksheet for making corrections to the secured roll. The real property appraisers must complete the forms and forward them to the technical service section for inputting to the assessment roll.

For transfers or new construction, the appraisers must complete a field worksheet which is used to update the roll being prepared and a supplemental worksheet which is used to make a supplemental enrollment. Each worksheet is inputted by a different person in technical services. We observed cases where one worksheet was inputted but the other was not. For instance, a supplemental assessment was made but the new value was never placed on the regular assessment roll.

We recommend that the assessor assign the assessment standards section to review the current enrollment process. The various forms should be consolidated to one assessment roll change form. We recommend that the appraisers fully update the appraisal files with all of the required documentation and that the technical service section complete any forms that must be forwarded to the county controller.

#### 4. Disaster Relief

Section 170 of the Revenue and Taxation Code permits a county board of supervisors to adopt an ordinance that allows property tax relief to owners of damaged or destroyed property. The board of supervisors may limit eligible properties to those properties located in an area subsequently proclaimed by the Governor to be in a state of disaster. Or, the board of supervisors may adopt an ordinance that allows the assessor to reassess any damaged or destroyed property for any qualified property owner.

RECOMMENDATION 15: Modify the disaster relief assessment program by: (1) requesting the board of supervisors to adopt a disaster relief ordinance that reflects the requirements of the Revenue and Taxation Code; (2) granting disaster relief to all qualifying property, including personal property; (3) using all available sources for discovering properties damaged by calamity or misfortune; and (4) transferring the disaster relief program to the technical services real property section.

## Disaster Relief Ordinance

Section 170 of the Revenue and Taxation Code contains strict parameters for qualifying and appraising property which has lost value due to a calamity or misfortune. For example, the property must have suffered \$5,000 dollars or more in loss of value in order to qualify for property tax relief. The section also requires that the taxpayer must apply for relief, or the assessor petition the board of supervisors to grant relief, within six months from the date of the occurrence of the damage.

The San Francisco County Board of Supervisors passed an ordinance in the mid-1970's granting the assessor the power to provide tax relief on properties that have been damaged by calamity or misfortune. While the county ordinance reflects many features of Section 170, it does have significant differences. These differences are significant enough to make the county ordinance contrary to law.

Section 170 (3) allows the taxpayer to file an application for tax relief within 60 days of the date of damage. Section 170 (d) also permits the taxpayer to file an application within 30 days after notification by the assessor but in no case more than six months after the occurrence of the damage. Further, Section 170 (1) provides that if no application is made and the assessor determines that within the preceding six months a property has suffered qualifying damage, the assessor may, with the approval of the board of supervisors, reassess the property. It is clear that the intention of the Legislature is that any tax relief action must be initiated within six months from the date that the damage occurred.

The San Francisco County ordinance allows up to one year, or as little as one day, to file an application for tax relief because of a calamity or misfortune. The county ordinance states that the taxpayer may file an application "not later than the last day of the fiscal year in which said property was so damaged or destroyed." (Thus, if the calamity occurred on June 29, the taxpayer would have to file an application by the next day.)

The San Francisco County disaster ordinance states that if the damaged full cash value for the property is not at least \$5,000 less than the full cash value shown on the assessment roll, no adjustment shall be made to the roll. This language was proper at the time that the ordinance was adopted; however, with the inclusion of Article XIII A to the State Constitution in 1978 the above statement establishes an incorrect benchmark for qualifying a property for tax relief.

Section 170 (b) requires the assessor to determine the value of the property immediately before the damage and immediately after the damage. The assessor shall then determine the percentage reductions in the taxable value of the property due to the damage or destruction. The assessor must reduce the values appearing on the assessment roll by the computed percentages of damage. Because the roll value will often be less than the current market value, actual reductions to the assessed value may be less than \$5,000.

We recommend that the assessor request that the board of supervisors adopt a disaster relief ordinance that reflects the requirements of the Revenue and Taxation Code. After adoption of such an ordinance, we further recommend that the assessor establish a written procedural policy for the granting of tax relief because of loss in value from calamity or misfortune. This procedural policy should be distributed to the members of the appraisal staff for immediate implementation.

### Personal Property

It has been the practice of the San Francisco County Assessor's Office to grant disaster relief only to real property. Both the county ordinance and the Revenue and Taxation Code state that any taxable property may be granted tax relief because of loss in value from a calamity or misfortune. Section 170 (b) of the Revenue and Taxation Code specifically mentions land, improvements, and personalty. Paragraph (f) 2 of the county ordinance addresses the taxing of damaged property on the unsecured roll.

We recommend that the assessor grant disaster relief to all qualifying property, including personal property.

### Expand Discovery Program

Discovery of property damaged by a major calamity seems to be handled in an efficient manner by the assessor's office. For example, after a major earthquake in 1989, through questionnaires mailed to property owners, field inspections, and cooperation of other agencies, the assessor's office provided tax relief to over 2,000 affected property owners.

For individual events, such as a house fire, the assessor depends primarily on taxpayer notification. We concur that taxpayers should bear some of the responsibility of notifying the assessor if their property has lost value because of a calamity or misfortune. Unfortunately, in many cases the taxpayers are unaware of their rights to tax relief. We feel that the assessor also has the duty to discover properties that may qualify for relief and properly notify the last known owner of the property of the county's disaster ordinance.

In order to measure the effectiveness of the assessor's discovery program, we requested from the San Francisco Fire Department a listing of all fires that occurred during the 1994 calendar year. Per our instructions, the fire department limited the list to only those properties that had an estimated structure loss of \$30,000 or more.

The fire department's list included 88 reported fires with structure losses ranging from \$30,000 to \$1 million. By comparing the addresses to the assessment roll, we were able to match 78 properties to assessor's parcel numbers. The assessor's staff provided us with 70 of the appraisal files; the other eight files could not be located.

Our review of the appraisal files indicated that only four of these property owners filed and received tax relief. Ten other properties had been classified as Section 51(b) reductions

or work in progress. However, there was nothing in the files to indicate that the Section 51(b) reductions or work in progress were related to fire.

It is unknown how many, if any, of these fires were reported through the media. Therefore, as a final step to determine whether the assessor's office should have been aware of these damaged properties, we went to the Department of Building Inspection. We found that 27 of the 78 properties had building permits issued that were specifically issued because of fire damage. Permit values ranged from \$35,000 to \$250,000.

We recommend that the assessor utilize all available sources to discover property that has been damaged or destroyed and that may qualify the property owner for relief. Taxpayer reporting, media reports, building permits, fire department reports, and field awareness on the part of the staff members are all sources that should be utilized by the assessor.

Regardless of the source, when it is discovered that a property has been damaged or destroyed, the parcel number should be logged and an application for disaster relief should be mailed to the last known owner. The appropriate staff member should also log the date the application is mailed to the taxpayer and the date the application is returned to the assessor.

When an application is returned to the assessor's office, a member of the technical support section should review the application for completeness. Any incomplete application should be returned to the property owner with proper instructions.

If the returned application indicated that the property owner may qualify for tax relief, the application should be forwarded to the appropriate appraisal section for field review. If, from the application, the technical support section determines that the property does not qualify for disaster relief, a letter of notification should be mailed to the applicant.

Should the property owner not return an application for tax relief within the prescribed time, the assessor's parcel number should be forwarded to the real property section for review. The real property section may elect to send a second application, clearly labeled second notice, or may schedule the property for field review.

All of the above activities should be logged at each step. These actions will insure that every effort has been made to provide tax relief to qualifying property owners.

#### Transfer to the Technical Services and Real Property Sections

At the present time the assessment standards section is responsible for the county's disaster relief program.

The assessment standards section is staffed by one chief appraiser and three non-appraisal certified support members. Recently, a certified real property appraiser was assigned to help the section. It processes all returned calamity applications. A member of the real property

section makes a preliminary field inspection and provides the assessment standards section an estimated percentage of damage to the real property.

When a property owner advises the assessor that the property is still in a damaged condition, as of the lien date, the assessment standards section requests a field review by the real property section. However, we were informed by members of the staff, both in assessment standards and real property, that field reviews are seldom performed. Staffing, workload, and an increasing number of assessment appeals are cited as the reason. Because the assessment standards section does not have the staffing to field review damaged property each year, the staff are required to depend on the accuracy of the declaration of the reporting property owner.

Normally reappraisals because of disaster relief are a minor portion of the assessor's program. However, in cases such as the 1989 earthquake, disaster relief can consume major amounts of the assessor's staff time and efforts.

We recommend a major change in section responsibilities. We recommend that a staff member in the technical services section be assigned the responsibility of processing and tracking the applications for disaster relief. The real property section should be assigned the responsibility of review and valuation of properties which have experienced a calamity or misfortune. The assessment standards section should be responsible for the establishment of assessment policy and occasional reviews to insure that the accepted policy and procedures are being followed.

The technical services section should also be responsible for maintaining a tracking system, mailing applications, and reviewing returned applications for completeness.

In addition, the technical services section will make the preliminary decision of whether a property may qualify for disaster relief. This decision may be based on whether the owner reported more than \$5,000 in damage or if a building permit has been issued and indicates a construction value of more than \$5,000.

Once the technical service section has determined that a property may qualify for disaster relief, it should forward the application and/or building permit, along with a disaster review data sheet to the real property section. Based on the requirements of Section 170 of the Revenue and Taxation Code, we suggest that the disaster review data sheet be formatted in a manner similar to the one we have included as Appendix 4 of this report.

## 5. Public Information Transfer List

Section 408.1 of the Revenue and Taxation Code requires all assessors in counties with populations exceeding 50,000 people to maintain a two-year listing of transfers of any interest in property, other than undivided interests, within the county. The list must be updated quarterly.

The transfer list must contain the following: transferor's and transferee's name; assessor's parcel number; date of transfer; the address of the sold property; the date of recording; and the recording reference numbers. The listing may include, within the assessor's discretion, any other information that may be helpful to the taxpayer. The list must also include the consideration paid for the property when known by the assessor. However, care must be taken when listing the consideration paid. Sections 408.1 and 481 of the Revenue and Taxation Code prevent the assessor from including any information on the list that was furnished by the taxpayer on a Change in Ownership Statement (COS) or Preliminary Change in Ownership Report (PCOR). Information furnished on either statement must be held secret by the assessor.

RECOMMENDATION 16: Revise the list of transfers for public use to meet the requirements of Section 408.1 of the Revenue and Taxation Code.

The San Francisco Assessor's Office maintains an "Ownership Ledger" which meets some of the requirements of Section 408.1 of the Revenue and Taxation Code. The ledger includes the assessor's parcel number, recordation date, recorder's book and page number, and the transferee's name. The ledger does not, however, include the transferor's name, the consideration paid for the property, or the property's address.

We recommend that the assessor revise the current ownership ledger by including a field for the transferor's name, the consideration paid for the property, and the property's address. Again, we caution the assessor to not use information that is gained solely from a COS or PCOR. Instead, when the only source for the consideration paid is the COS or PCOR, we suggest that an "indicated" selling price be listed based on the conversion of the documentary transfer stamps. All recorded documentary transfer stamp information is public information that can be gained by any person by simply examining the recorded documents.

6. Record Maintenance

RECOMMENDATION 17: Develop and implement uniform policies and procedures for the maintenance of records to ensure that all records are updated, archived, and/or destroyed on a regular basis.

The assessor's office does not have a formalized policy or regular procedure for updating, archiving, or destroying records. Once per year a shredder is brought into the office for destroying files eligible for destruction. The date for this activity changes each year; therefore, the staff are not able to prepare their files in advance. In addition, since the budget does not provide for the archiving of files to the city/county archives, outdated files are stored in boxes in several separate rooms within the office space now being occupied by the assessor's office. The boxes in these storage areas are not clearly labeled as to their planned destruction date.

Both the State and Federal governments have established records management programs that apply efficient and economic methods for the maintenance, retention, preservation, and disposal of records. These programs typically include establishing policy on the retention of records, procedures for staff to follow to accomplish the directives set forth in the policy, and

records retention schedules for each area within the organization. The "records retention schedule" is a written plan or statement of actions to be taken with respect to all records produced or maintained by the organization. This schedule assists in the prompt disposal of records no longer needed, the storage of records which are no longer needed for current operations but must be maintained temporarily, and the preservation of records of lasting value. Staff are informed of the policies and procedures established and each area of the organization designates a coordinator who is responsible for ensuring the policies and procedures are accurately applied within their areas.

We recommend that the assessor establish records management policies, procedures, and standards for keeping and managing records and files. An inventory of records kept should be taken and reasonable retention periods established for each type of record that needs to be kept. Records that can be destroyed should be identified and the date for destruction determined. A protection plan should be established for records needed for long periods of time or in order to function in the event of a disaster. From this information, written records retention or disposition schedules can be prepared for purging records or reference materials of obsolete items, transferring outdated records to inactive storage (archive), and transferring records authorized for destruction to a temporary storage area to await annual shredding. The written plan should be provided to the staff so that all know the correct practice. In addition, the written policies and procedures governing the records management program should be included in the office's policy and procedures manual.

We further recommend that a centralized storage area be established for storing records that are to be temporally maintained before destruction and for those to be permanently retained for historical or disaster recovery purposes, and that these records be clearly labeled as to their planned retention or destruction.

Properly managed, records protect organizational rights, provide evidence of the appropriate carrying out of an organization's business, and support, defend, and account for an organization's business activities. Archiving records in one centralized area and clearly labeling them as to their planned retention or destruction will save staff time locating records for research purposes or when they are due to be destroyed/shredded. Space savings will also be realized as all items are purged and destroyed on a regular basis.

### III. REAL PROPERTY ASSESSMENT

#### A. THE APPRAISAL PROGRAM

##### 1. Introduction

##### a. General

County assessment programs include:

- The revaluation of properties that have transferred ownership;
- The valuation of qualifying new construction;
- The annual revaluation of certain properties exempt from the provisions of Article XIII A; and,
- The valuation of properties that have declined in value to a level below their factored base year value.

For the 1994-95 roll, the San Francisco County Assessor's staff accomplished a real property workload including about 9,000 reappraisals due to changes in ownership, the appraisal of only 118 items of new construction, 18,878 Section 51(b) (Proposition 8) valuation reductions, 1,078 property splits or combinations, plus miscellaneous real property procedures such as appeals, calamity relief reviews, and others. (The matter of only 118 new construction appraisals is discussed more fully as a separate topic in this report.)

In San Francisco County, the assessment function is carried out by a staff of approximately 100 employees under the direction of the county assessor and an assistant assessor. There are approximately 30 real property appraisers on the assessor's staff.

Statistics derived from an analysis of our sampling of the 1990-91 assessment roll in San Francisco County represent the overall quality and condition of the assessor's operation for that roll year. Our sampling of 351 assessment entries included 299 assessments of real property other than trade fixtures. Of these, 27 were appraised by the staff of the Assessment Standards Division (ASD) at values different from the assessed values enrolled by the assessor's staff. The various value differences between the Board's appraised values and the assessed values, expanded to represent all real property assessed on the 1990-91 roll, indicated that more than 2,500 properties were overassessed by \$492 million, while about 3,300 properties were underassessed by \$446 million.

Statistically expanding figures to determine overassessment or underassessment may not accurately reflect individual situations. The net value difference in any given sample

can result from a combination of factors which require individual treatment. Line item differences can offset one another, leaving a "bottom line" figure that may conceal deficiencies in the assessment program. Our recommendations are therefore based on our analysis of specific data that relates only to identified problems.

b. Appraisal Program Policies

We have made four recommendations in this section of the report that we have termed "Appraisal Program Policies." The subjects of the recommendations are areas where their implementation would impact the entire real property appraisal program.

Real Property Appraisal Activity System

RECOMMENDATION 18: Establish an appraisal activity system to help identify and prioritize the real property workload.

Many assessor's offices are able to create a periodic, comprehensive management report of pending, to-be-worked real property appraisal or assessment activities. This report, sorted by supervisor and appraiser responsibility and by assessor's parcel number (APN), is then used to guide and prioritize the workload. An activity system is best designed as a subsystem of the greater information system of the office.

Briefly stated, such a system functions as follows. Activities requiring assessment action (e.g., parcel transfers, building permits, decline-in-value status requiring annual review, assessment appeals, applications for disaster relief and others) are logged into the information system as they are initially processed. Typical data fields might include APN, neighborhood designation, activity type, activity ID number, relevant date or dates, and remarks field. When an activity has been worked and the roll updated, the pending activity is recognized as a completed activity and is transferred to a completed activity file; it will not appear on the next pending activities report. The system thus provides a record of completed activities as well.

An activity system is a prerequisite for orderly management and control of the real property workload.

- (1) It provides a current count of outstanding activities to be appraised and facilitates the prioritization of work.
- (2) Since all outstanding activities on a given parcel are readily visible, they can be processed together and in the correct sequence, which is much more efficient; the activity file can be loaded to a LAN, if this is desired.
- (3) Preprinted roll update documents can be prepared by the system, reducing the handwritten transcription of property data by the appraisers.

- (4) An activity system provides an additional control over activities requiring assessment action; an electronic record remains, providing an audit trail, if the source documents are lost or discarded.

The San Francisco County Assessor's Office does not have an appraisal activity system as described above. Transfers requiring reassessment are logged on the mainframe system and cleared as worked. A report of unworked transfers is available, but no periodic report is created linking the transfer activities to other activities. A stand-alone, PC-Based "Building Permit Activity System" has been under development but is not fully operational. This application would create a database to track permits requiring a change in assessment and would, of course, have report-generating capabilities. A similar system for tracking assessment appeals has also been under development, but it is also not fully operational. This system would provide a means of tracking assessment appeals within the assessor's office and of analyzing financial data related to appeals. However, neither of these systems are linked to the transfer tracking or to the tracking of other activities requiring assessment action.

The assessor's key staff recognize the need to dramatically update the management information system of the office; the current technology is of 1960's vintage and has been a long-standing problem. They are in the process of developing applications for a new real property division local area network (LAN), but they also recognize that the replacement of the existing mainframe system, hardware, software, or both, may also be required. Obviously, any system overhaul or replacement should include an activity tracking system such as described here. However, absent that, much of the data needed for this application, or something similar to it, may be already available in the county electronic median. Data regarding building permits and assessment appeals could be taken from the applications designed for these purposes, mentioned above, should they become operational. Data regarding property transfers and decline-in-value status could be downloaded from the mainframe. Even as a temporary measure and in limited form, it would be valuable for the real property division to download existing electronic data into a database program and create, in one report, a look at the outstanding workload.

#### Appraisal Program Data Base

An extremely important factor in any assessor's appraisal program is a complete, well-organized, easily usable database. An assessor's office receives and maintains a wealth of information relating to properties and their valuation. Not only are purchasers of property required to report sale information to the assessor, but state tax laws also give the assessor the authority to demand other data that is relevant to the determination of an estimate of value.

**RECOMMENDATION 19:** Create and maintain an appraisal data bank.

The San Francisco County Assessor's Office subscribes to and uses a recognized property market data publication and computer software program for the majority of its comparable sales information. Both are good sources and are utilized widely throughout the state by many assessor's offices. However, most assessors' offices maintain their own databases also by gathering and storing market and income data.

In July 1994 the assessor's staff established a Local Area Network (LAN) system. In October 1994 they modified the mainframe database by including the neighborhood characteristics for all of the parcels in the city. All of the parcels were downloaded to the LAN and in coordination with the Information Systems Department are now used as a sales query system. The query system is broken down into three major databases; single family residential, multifamily residential, and commercial/industrial/miscellaneous properties.

While the present system is useful for the identification of sold properties, it falls short of providing all of the information necessary for the valuation of income producing properties. A proper data base containing both sale information and lease and expense information is still lacking within the San Francisco Assessor's Office.

The assessor's real property division has never had a formal program for the collection, processing, and storage of sales or income data for income producing properties. Each appraiser collects and keeps his or her own information in his or her own manner. The real property division should create a system for collecting data, processing it into units of comparability, and storing the data in a central database that can be accessed by all appraisers. The collection, processing, and storing of data should center on the two main valuation related areas, sales data and income data.

In processing sales data routinely received by assessors' offices, the appraiser should convert the sale prices, adjusted for cash equivalency, into units of comparability. Units of comparability may vary from property type to property type. For instance, price per square foot, price per room, and price per unit may be appropriate for apartment buildings. But, investors in commercial properties may also base their opinions of value on price per front foot. Once processed, the data should then be stored for ease of extraction and use.

The collection of income data is not as routine as that for sales data. The Revenue and Taxation Code does not require transferees to provide assessors with income or expense anticipation. However, Section 441 of the Revenue and Taxation Code does require property owners to provide assessors with any data that an assessor deems essential.

We recommend that the technical services section, based on the property's use code, mail a questionnaire to each buyer of property that has the potential of producing an income stream from property rents. When the questionnaire is returned, the appraisal staff should compute units of comparability, income multipliers, overall rates, yield rates, and when appropriate, internal rates of return.

Collection of income data should not be limited to sold properties. It is vital to keep data banks up to date with current lease and expense information. Leased properties should be identified in such a manner that the staff will be alerted when a lease has expired and there is a potential for a new lease. Annual business property statements are good sources of discovery for new leases. Whenever the assessor's staff is aware of a potentially new lease, an income and

expense questionnaire and a request for a copy of the latest income and expense statement should be mailed to the property owner.

Once the sales and income data have been collected, it is extremely important that this information be stored so that it can be easily accessed by the appraisal staff. We recommend that the assessor utilize a computer database. By storing data in this manner, it can be retrieved by using any number of data fields.

The San Francisco County Assessor is aware of the importance and necessity of this recommendation. In fact, while our survey team was conducting the fieldwork for this report, the assessor's chief of the real property division was drafting different forms that can be used as income questionnaires as a first step to establishing an adequate appraisal data bank. In our recent survey of the Alameda County Assessor's Office, we noted an excellent appraisal data bank in place. The San Francisco County Assessor should investigate the Alameda County program for possible adaptation for her office.

**RECOMMENDATION 20: Consider all applicable approaches to value.**

Our review of several hundred appraisal files for most property types revealed that in the majority of reappraisal cases, the San Francisco County real property appraisers value transferred property at the sale price whenever a sale price is involved. When a property transfers but does not involve an exchange of money, such as an inheritance, the county appraisers generally rely on the sales comparison approach. Except for assessment appeal cases, the county appraisers seldom utilize the replacement cost approach or the income approach to value when a selling price is evident.

There is no question that the comparative sales approach is the preferred approach to value, provided that there is sufficient and reliable market data. In fact, Property Tax Rule 2, Title 18, Public Revenue, California Code of Regulations, states that it shall be rebuttably presumed that the sale price is the full cash value of the property.

However, to simply enroll the sale price of a property as its assessable value, without additional validation, as the San Francisco County appraisers do in the majority of cases, may not result in valuing the full rights of the property. For instance, many times when commercial property sells on the open market, even through an arm's length transaction, the sale price may only represent the leased fee estate. The assessor must value property at its fee simple value, which is the sum of the leased fee estate and the leasehold estate.

We recommend that the real property appraisers consider all approaches to value whenever applicable. In the reconciliation step of the appraisal process, the appraiser should give greater weight to that approach that best reflects the actions of the market place. For instance, investors in commercial properties generally purchase property based on net operating income; consequently, the income approach will probably yield the most reliable value.

By recognizing and using the various approaches to value when appropriate, the assessor's appraisals will be given greater validity in any subsequent reviews or appeals.

### Revenue and Taxation Code Section 506 Interest

Section 441(d) of the Revenue and Taxation Code provides assessors with the authority to examine pertinent property information and records. An assessor may request to examine acquisition transaction data, construction and development costs, rental income, and other data that the assessor considers essential to the proper valuation and assessment of a property.

If the property owner will not make the property records available for examination pursuant to the assessor's Section 441(d) request, Section 501 of the Revenue and Taxation Code requires the assessor to then estimate the value of the property. In addition, Section 506 requires the addition of an interest component at the rate of three-fourths of 1 percent per month from the date the taxes would have become delinquent if they had been timely assessed to the date the additional assessment is added to the assessment roll. By order of the board of supervisors, Section 531.2 allows the assessor to also apply Section 506 interest when a taxpayer fails to file a change in ownership statement as required by Section 480.1 or 480.2. The San Francisco County Board of Supervisors passed a resolution that provides that interest be added pursuant to Section 506.

Our review of the San Francisco County Assessor's business property division showed that Section 506 interest is being applied when appropriate. The real property computer program has just recently been modified to accomplish this procedure. This is a good first step, but the program has only been tested on random samples and is not fully implemented. The importance of this procedure should be recognized by incorporating it into the assessor's official policies manual.

RECOMMENDATION 21: Draft and distribute to the real property appraisal staff an official procedure for the application of Section 506 interest.

A written policy will emphasize to the appraisal staff when Section 506 interest should be applied to real property assessments. Because Section 506 interest cannot be applied to all escaped real property assessments, a written policy will assist the appraisers in recognizing those situations where the interest provisions do apply. A written policy will also standardize the use of Section 506 by individual appraisers. Therefore, we recommend that the assessor develop an official written policy regarding Section 506 interest.

## 2. Changes in Ownership

### a. ASD Sampling Findings

ASD's sampling of the 1990-91 San Francisco County assessment roll included 137 properties that had changed ownership. ASD's appraisers and the assessor's staff were in

agreement as to the assessed value of 122 of these properties; there was disagreement as to the assessed values in only 15 of the cases. In eleven of the cases where a disagreement existed, the assessed values were lower than ASD's appraised values. When statistically expanded over the entire 1990-91 locally assessed roll, this indicates total underassessments of approximately \$210 million on 2,285 properties that have changed ownership. In the four other disputed cases, assessed values were higher than ASD's appraised value. The differences here expand to a total over-assessment of \$142.4 million on about 588 properties that have changed ownership. The causes of the value differences were varied:

- (1) ASD and the county appraiser relied on different indicators of value, such as selling price versus capitalized earning ability or comparable sales indicator (three sample items);
- (2) Inflation factoring errors (two sample items);
- (3) Escaped new construction completed after the sale or transfer of the property (two sample items);
- (4) ASD and the county appraiser differed either on date of transfer or percentage of interest transferred (two sample items);
- (5) ASD disagreed with the assessed value, however that value had been established by the assessment appeals board (three sample items); and,
- (6) ASD subsequently agreed with the county value after the sampling statistics were published (one item).

Only the circumstances of (1) above are cause for concern. In far too many cases the county appraisers rely exclusively on the reported sale price of the property to establish the assessed value. We have discussed this subject in detail in Recommendation No. 20.

None of the other disagreements regarding the Change in Ownership sample items represent patterns or policies that our subsequent review showed to be inherent or continuing problems.

b. Program

Processing Changes in Ownership

At the present time, change in ownership responsibilities are scattered throughout the assessor's office. Staff from the technical services section pick up recorded deeds from the county recorder's office twice daily. They then match the legal description of the property on the deeds with the assessor's parcel number and verify that the grantor is actually an owner of the property. The section also makes a preliminary decision whether the property should be reassessed. For instance, mere name changes, interspousal transfers, etc., are marked as

nonassessable events. In the event of a partial interest transfer, the section determines what percentage or fraction of ownership transferred.

After verifying the information on the deed for correctness, the technical services section inputs the deed information in the computer's assessment file program. The day after the information is placed in the computer program, the chief of the technical services section receives a printout listing all records changed since the previous listing. The chief uses this list as a source to verify the accuracy of the inputted changes.

The original copy of the deeds are maintained in a file by the technical services section. The documents are filed by assessor's parcel number and by assessment year. A copy of the recorded document is forwarded to the assessment standards section.

The assessment standards section staff picks up the Preliminary Change of Ownership Reports (PCOR's) from the county recorder's office on a daily basis. They also receive two worksheets that are computer generated: a supplemental worksheet and a field worksheet. The deeds, PCOR's, and worksheets are merged together by the assessment standards section according to recordation date.

The staff of the assessment standards section directly enrolls the assessment for changes in ownership of single family residential properties, apartments with four units or less, and condominiums. The staff members who make the direct enrollments are not certified appraisers; however, their value conclusions are made following strict guidelines and under the supervision of and a review by a certified appraiser. In order to be directly enrolled, the transferred property must be a 100 percent interest transfer and the PCOR must have a confirmed sale price or the transfer stamps must be based on the full interest conveyed.

All property transfers that are not directly enrolled by the assessment standards section are forwarded, along with the merged documents, to the real property appraisal section. These transfers include transactions that did not include a consideration in cash, partial interest transfers, nonconfirmed sales prices, commercial properties, and others. The transferred properties are assigned to appraisers based on geographic areas.

Any questionable concerns that might affect the assessability of the property must be researched by the real property appraiser. This includes adding and deleting of a joint tenant, division of property within a partnership, tracking of partial ownership changes, and other technical aspects. After completing the appraisal, the property appraiser completes the field worksheet and the supplemental worksheet and returns these two documents back to the technical services section for inputting to the assessment roll.

The present method of processing changes in ownership documents is cumbersome and inefficient. In many situations documents are handled by three different sections before the assessment is ultimately valued for enrollment.

RECOMMENDATION 22: Reassign change in ownership document processing responsibilities.

The assessor should take immediate steps to streamline the property transfer document processing procedure. To do this, responsibilities must be reassigned. The following three steps are the major changes necessary to effect the needed efficiencies.

First, we recommend that all property transfer document processing procedures and direct enrollments be taken out of the assessment standards section. Instead, that section should only be responsible for the drafting of official office policy and the periodic review of technical services and real property work for quality control.

Secondly, we recommend that a property transfer unit be created within the technical service section. (The assessor indicated to us her intention to create a "transactions unit.") This unit should be staffed with the most experienced support personnel within the assessor's office. They should be thoroughly trained in changes in ownership so that they can make all but the most complex of the technical decisions relating to property transfers. Examples of duties that this unit would be responsible for include tracking partial interest changes and determining proper base years, determining original transferors in joint tenant transfers, and, in general, all decisions relating to the assessability of changes in ownership.

Finally, the real property section should only be responsible for determining the proper valuation of the properties. If, through their field review, the appraiser questions the accuracy of the transfer unit's conclusions, the matter should be referred back to the technical services section, with appropriate remarks, for additional consideration.

Implementation of this recommendation will streamline and increase the efficiency of processing changes in ownership, allow the assessment standards section more time for policy review and quality control, and provide additional needed time to the property appraisers to make a proper and well-documented appraisal.

c. Valuation and Assessment

Cash Equivalent Adjustments

Section 110 of the Revenue and Taxation Code defines market value as the purchase price paid for property in an open market transaction. It goes on to say that purchase price means the total price paid, valued in money. Property Tax Rule 4 says that when an assessor uses sales prices to value a property, those sales prices must be converted to their cash equivalency. And, the courts have steadfastly upheld the concept of cash equivalency for property tax assessment purposes.

RECOMMENDATION 23: Develop and implement a written policy for making cash equivalent adjustments.

In the past, the San Francisco County appraisers made cash equivalent adjustments to selected property transfer transactions. Today, though, it appears that cash equivalent adjustments are seldom, if ever, made, even when obviously warranted.

The San Francisco County appraisers are aware of the legal requirements for cash equivalent adjustments, however, there is no assessor policy in existence prescribing its application. We recommend that a written policy be prepared and distributed to the appraisal staff regarding the proper application of cash equivalent adjustments. The assessor should base the policy on the principles expressed in Assessors' Handbook Section 510F, Cash Equivalent Analysis.

After the policy is implemented, the staff of the assessment standards section should periodically perform random reviews of property transfers to insure that the appraisal staff is adhering to the policy. By implementing this recommendation, the assessor will be in compliance with the applicable statutes regarding cash equivalency, and will ensure that taxpayers are treated in the manner intended by the Legislature.

Partial Interest Change In Ownership

RECOMMENDATION 24: Review value calculations for parcels having multiple fractional interest transfers.

In our letter to county assessors No. 85/85 (August 19, 1985), we stressed the importance of tracking undivided ownership interests in real property. When there are multiple transfers of fractional interests in the same real property, different base years and base year values result for the different interests. It therefore becomes important to know which interest is being transferred, so that the appropriate blended taxable value and supplemental assessment are determined. While there is no administrative requirement for separate assessment of such interests, it is essential that their base year values be clearly tracked in written form on the appraisal records.

We noted in our review of the transfer process in the San Francisco County Assessor's Office that in some instances of multiple transfers of fractional interests in real property the separate base year values are not identified on the appraisal records. This has led to the enrollment of inappropriate values and incorrect supplemental assessments.

We recommend that staff be directed to document the percentage of interest transferring, its new base year, and its new base year value for every partial interest transfer. This change will prevent further compounding of inappropriate values.

## Supplemental Assessments

Section 75.10 of the Revenue and Taxation Code provides that, whenever a change in ownership occurs, the assessor must appraise the property changing ownership at its full cash value on the date the property changed ownership. The difference between the new appraised value and the current roll value (in some cases, the value on the roll being prepared) is to be entered on the supplemental roll. The value entered may be a positive value and create a billing for taxes; or, it may be a negative value and require the county to issue a refund.

**RECOMMENDATION 25:** Reappraise and supplementally assess all qualifying changes in ownership resulting from foreclosures by financial institutions.

Our review of the San Francisco County appraisal files indicated several scenarios in which the appraisal staff does not establish a new base year value for qualifying changes in ownership; and, as a result, they do not apply appropriate supplemental assessments. The appraisers are apparently following unwritten policies that were promulgated several years ago.

One major area where we disagree with the actions of the county appraisers is when property is acquired through foreclosure by a financial institution. For example, a property was on the regular assessment roll at approximately \$157,000 when it entered foreclosure proceedings. The debt still owed on the loan was over \$300,000. The county, with no explanatory documentation, valued the property for the change of ownership at the debt amount. While we do not particularly agree with using the outstanding debt as an indicator of value of the change in ownership due to foreclosure, the establishing of a new base year value was proper. One year later the financial institution sold the property for approximately \$150,000. The county did not reappraise the property for this change of ownership. (The property was subsequently listed on the open market for \$220,000.) Therefore no supplemental assessment was made. We were informed of an unwritten policy of not creating negative supplemental assessments when financial institutions are involved, even if it meant not reappraising a qualifying change in ownership.

Property tax law is very clear; whenever a property experiences a reappraisable change in ownership, the assessor is mandated to establish a new base year value and make supplemental assessments. Except for specific exclusions, who acquires property or how the property was obtained is not a controlling factor.

Another unwritten and errant practice involving supplemental assessments was brought to our attention through our review of a partial interest transfer. In this case the appraiser noted on the appraisal record the interest transferred and stated "no value change." The principal appraiser responsible for reviewing the appraisal informed us that it is "unwritten policy" to not create any supplemental assessment which produces less than twenty dollars in revenue. Regardless of the amount of revenue, the assessor's staff does not have the legal authority to not make a supplemental assessment when a change in ownership occurs that results in a value change.

If the computed supplemental tax is twenty dollars or less, Section 75.41(d) gives the county auditor the authority to cancel the taxes due. In San Francisco the auditor's duties are performed by the City and County Controller. No authority is granted to the assessor to cancel, or not make small supplemental assessments.

We recommend that the assessor assign the assessment standards section the responsibility of establishing a written policy for the assessment of all changes in ownership and procedures for making proper supplemental assessments. Further, we recommend that once the policy is implemented that the assessment standards section periodically review random appraisal records to ensure that the policy is being adhered to.

d. Legal Entity Ownership Program (LEOP)

Section 64(c) of the Revenue and Taxation Code provides that a change in control of any legal entity is a change in ownership for property tax purposes of all real property owned by that entity as of the date of the change in control. Consequently, that real property is subject to a reappraisal. A great number of properties in San Francisco became subject to reappraisal during recent years because of such changes in control. Many of these are multi-million dollar properties.

Changes in control are not recorded in the same manner as other transfers and are not always obvious to the assessor's personnel. An assessor has three main sources of discovery of changes in control:

- (1) Articles in newspapers and real estate periodicals.
- (2) Legal entities that must file an annual property statement with an assessor must respond to questions regarding changes in control posed in the general information section of that statement. As the statement is processed by an assessor's business property division personnel, disclosures are typically routed to a title/transfer unit for further analysis before they are passed on to the appropriate appraisal division.
- (3) Since 1981, the Board's Assessment Standards Division has periodically informed county assessors of changes in control of legal entities that own real property in California. ASD learns of these unrecorded changes in ownership occurring through stock purchase or acquisition from responses by taxpayers to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board (FTB).

ASD's LEOP unit gathers this preliminary information from FTB and sends the acquiring entity a specific questionnaire requesting the date of transfer, manner of change in control, and disclosure of all parcels involved, listed by county. The responses are accumulated, sorted by county, and forwarded to the appropriate assessors' offices. This provides the assessors' staffs with information on the unrecorded transfers of real property that may otherwise be

overlooked. Because of time lags between the dates of the changes in control and the dates of resolution by ASD, assessors are encouraged to use all three sources of information.

Since 1981, ASD's LEOP unit has notified the San Francisco County Assessor's Office of the changes in control of 230 entities owning approximately 620 real property parcels. From an accumulated list, we selected for review the appraisal records (and in some cases the business property statements) of properties owned by 18 legal entities that experienced a change in control between 1989 and 1994. We found appraisal records for only three of the entities that clearly indicate that valuation changes were either made or considered because of the changes in control. Property subject to long-term leases of two other entities were reappraised because of the changes in control, but the records were poorly documented. The appraisal folder for one of the leased properties contained a newspaper clipping describing the change in control, while the folder of the other leased property contained a copy of the business property statement with the taxpayer's acknowledgment of the change. Otherwise, there was nothing in the folders to explain the reasons for the reappraisals. Properties owned by six other entities were reappraised subsequent to the dates of the changes in control, but the reasons for the reappraisals were not noted. Some of the properties were later involved in conventional transactions, establishing new base years.

The appraisal records of properties owned by six other legal entities make no mention of changes in control, although two of the entities indicated on their business property statements that changes had occurred. Perhaps an appraiser had reviewed the properties and determined that the values had not changed since the prior appraisal or that a reappraisable change in ownership had not occurred. However, there is nothing on the appraisal records to indicate that the values were reviewed.

At best, the assessor's staff is inconsistent in the attention given to properties that have experienced a change in control. In any case, the program suffers from a lack of formal procedures, controls, and assignment of responsibility.

**RECOMMENDATION 26:** Establish procedures, controls, and areas of responsibility to ensure that all properties subject to reappraisal because of changes in control receive timely and appropriate action.

The principal appraiser in charge of the area in which a property is located analyzes the transaction, makes the decision concerning a reappraisal, and either values the property or delegates the assignment to a subordinate. One problem with this arrangement is assuring uniform decisions when the property of a single entity is in more than one district. Just getting information to the principal appraisers concerning properties that have experienced a change in control has been a major concern.

Although we found one appraisal folder with a copy of the particular business property statement, the principal appraisers have not been getting copies of these forms in a routine manner. Beginning in 1995, clerks or auditors processing the property statements made copies when they discovered positive responses to questions concerning changes in control.

When the statement processing period ended, the copies were batched along with those indicating long-term leases and tenant-installed improvements and were routed to the real property division. Although the copies of the statements reached that division, due to workload priorities they were not distributed to the appraisers. The effort of the business division to relay this information provides a good start towards improving the situation. The division should, however, add controls to the process by noting the date and the specific destination of the information sent to the real property division.

In order to ensure that all properties affected by a change in control are revalued in a timely and appropriate manner (and that non-affected ones are not reappraised), a program should be planned, assignments made, and responsibility established. Most of the activity and responsibility should be placed with a single position. The position of senior management specialist in the real property division would be appropriate. The person assigned to this position would take the following actions:

1. Make arrangements for that position to receive the following:
  - a. copies of the State Board of Equalization LEOP information sent to the assessor;
  - b. copies of the business property statements routed from the business property division;
  - c. reports of changes noted or observed by others in the division.
2. Initiate requests to taxpayers for additional information when necessary.
3. Analyze information to determine or verify the parcels to be reappraised and those not affected by the change. Document the decision on a master control list and in the appraisal folders.
4. Establish procedures for placing the affected properties into the transfer tracking system.
5. Relay notification of transaction and copies of information to a principal appraiser of the appropriate district for appraisal assignment. Note the assignment date and the completion deadline on a master control list and in the transfer tracking system.
6. Upon completion of assignments, make sure that appraisal documentation standards are met. Review the results with the chief appraiser.
7. Monitor the roll preparation process to ensure that any changes are properly entered.

8. Retain LEOP information and control records.

3. New Construction

a. ASD Sample Findings

ASD's appraisal sampling of the 1990-91 San Francisco assessment roll included 41 items identified as new construction. In 33 of these cases, the ASD appraised and county enrolled values were in agreement. The ASD appraised values were higher than the enrolled values in five cases and in three cases the county enrolled values were higher than the ASD appraised values.

Statistically expanding these applicable sample items indicates that 182 properties having new construction were overassessed by \$245 million, while approximately 183 such properties were underassessed by nearly \$272 million. The causes of the value differences were varied:

- (1) The ASD and the county appraiser relied on different methods of determining the cost of new construction (two sample items).
- (2) ASD appraised new construction which had escaped valuation by the county (three sample items). Two of these sample items also included base year differences.
- (3) ASD and the county differed because of appraisal judgment differences (one sample item).
- (4) ASD valued improvements according to the assessment year in which they were completed, while the county valued all of the new improvements as being completed within one assessment year.

Our sample of the San Francisco assessment roll showed that, of the eight sample items which contained significant differences, five were improved with commercial type structures, one was industrial, and two properties were residential. Unfortunately, the sampling was done prior to the occurrence of the huge assessment appeals workload. Therefore, its impact, which has so directly affected the new construction assessment program, is not reflected in the sampling statistics.

b. Program

New Construction Backlog

Because of a very large increase in the number of assessment appeals and Proposition 8 (decline in value) appraisals, appraiser time has been directed away from the valuation and assessment of new construction. A number of new construction functions have

been placed on hold while appraisal staff are currently assigned to these other assessment priorities.

The current backlog of unworked building permits totals an estimated \$500 million of construction value, with the greater portion, over a billion dollars, concentrated in commercial and industrial properties.

**RECOMMENDATION 27:** Eliminate the current backlog of assessable new construction.

We recognize that the current workload of other mandated priorities has required the assessor to assign the assessment of new construction a lower priority. However, the enrollment of new construction assessments should be a priority for timely handling as well.

Section 532 of the Revenue and Taxation Code provides a four-year statute of limitations for which escape assessments may be issued. A delay that exceeds that statutory time period will result in lost revenues in the form of escape assessments. In addition, if the delay exceeds the time limits specified by Section 75.11, the supplemental assessment that should have been made is lost permanently. New construction assessments can be time consuming, and it may become difficult to timely enroll future permitted construction if the current backlog is not cleared.

We most strongly recommend that staff enroll the construction backlog as soon as possible, starting with the oldest outstanding construction permits, and to issue escape assessments as necessary.

**SUGGESTION 2:** Create a separate appraisal crew to appraise assessable new construction. Include an auditor-appraiser to aid in the segregation of assessable business and real property items.

The elimination of the current backlog of assessable new construction could be facilitated by the formation of a separate appraisal crew or team whose primary responsibility is the valuation and enrollment of new construction. Whether temporary or permanent, the formation of such an appraisal crew would centralize construction valuation and provide a number of additional benefits for the San Francisco County Assessor's Office.

A crew specifically assigned the responsibility of appraising new construction could provide the environment for training incoming appraisers in a formal cost approach and concentrate the gathering of historic costs sales, and income data applicable to the valuation of construction. And, as a training environment, it could be utilized to eventually acclimate all real property appraisers to more systematic and detailed methods of documenting the valuation and assessment of structural improvements.

We suggest that this team include an auditor-appraiser to aid in analysis of reported construction costs. Assigning an auditor-appraiser to this group would aid in segregation of costs reported on the Business Property Statement. The reported costs for the

construction of tenant improvements could be divided into their assessable real and personal property classifications.

In our discussions with the assessor's management team, they indicated their future plans included the formation of a specialized crew to deal with the new construction backlog. This is the proper course of action and should be done as soon as possible.

#### Written Procedures are Needed

**RECOMMENDATION 28:** Reinstitute formalized procedures for processing, valuing, and enrolling assessable new construction.

For many years the San Francisco County Assessor's Office has operated without formal procedures for the assessment of new construction.

There are a number of areas where written procedures would aid the staff in reducing the risk of escaped new construction as well as in producing standardized valuation of new construction. Formalizing solutions for appraisal and assessment problems would also aid management in the allocation of time and resources. Lack of written procedures in the San Francisco County Assessor's Office hampers the staff in producing documented, consistent valuation approaches in the assessment of new construction.

The responsibility for the development of a procedures manual is usually delegated in most assessor's offices to the assessment standards section. In the San Francisco County Assessor's Office the standards section has not been allocated the technical staff required for the development of a working procedural and operational manual. It is, instead, charged with a number of routine clerical functions as well as building permit and deed screening duties.

Determination of assessable new construction under Article XIII A of the California Constitution can be difficult under any circumstances. Written standardized procedures for the valuation and assessment of new construction would be a good working aid for the appraisers in that regard. It should include instructions for processing and culling of building permits and set the procedures and parameters for the mailing, analysis, and auditing of construction cost questionnaires. Valuation approaches and procedures should be set and standards established for the documentation of assessments to be included in the appraisal record defined.

We recommend that when the assessment standards section is relieved of its involvement in routine clerical functions, it be assigned the responsibility for the compilation and writing of a procedures manual for the valuation and enrollment of assessable new construction.

**RECOMMENDATION 29: Standardize the use of the cost approach for valuation of new construction.**

Assessable new construction can be appraised by using the cost, income, and sales comparison approaches to value. Each approach to value must be completed in a way that is consistent with standard appraisal practices. Most staff appraisers in the San Francisco County Assessor's Office do not use a standard cost approach.

A standard cost approach is based on unit costs that are compiled and published by an organization that is recognized as valid by professional appraisers. In many cases, the assessor should adjust the standard printed costs to recognize local economic factors.

The cost approach can be a reliable indicator of value in instances where actual or historic cost may not indicate actual value added to a property by new construction. One common example is construction by the property owner where the cost of labor is not declared and income or sales data are nonexistent or inconclusive. Use of the cost approach and standard costs results in a reliably uniform valuation of assessable new construction where the value added cannot be readily quantified by market data.

Though the San Francisco County Assessor's Office keeps current costs published by a recognized provider as a reference, they are not regularly used by the staff appraisers, who often estimate the value of new construction on the basis of their own experience. Our review showed that individual estimates can vary widely. This is a practice that has existed for many years and through multiple administrations in the assessor's office.

An appraiser using a standard cost system identifies different structural components and values them separately using standard costs. By focusing on use of standard costs for identifiable components, a standard cost approach minimizes subjectivity and allows an appraiser to form a value conclusion that is based on costs that are typical for a given type of construction.

We recommend that the assessor adopt a standard cost system and see that the appraisal staff is trained in its use. The system should be initially introduced in use by an appraisal crew or group dedicated to the enrollment of the current backlog of new construction (as suggested elsewhere in this survey report). The remaining staff can become familiar with the selected system as the workload permits.

**Taxpayer Self-Reporting of New Construction**

**RECOMMENDATION 30: Revise the procedure for the use of self-reporting by taxpayers of certain new construction activity.**

The use of a self-reporting form for low valued new construction is an ideal tool for saving appraiser time. Certain types of new construction items lend themselves particularly well to this type of program and are used extensively in many assessors' offices. In most

assessor's offices these forms are used extensively to gather information, mainly of residential properties, and to enroll the assessment of low-valued new construction, e.g., patios, fencing, concrete flatwork, landscaping, small residential additions, and swimming pools without the necessity of a field inspection.

Briefly, such a program should include the following parameters.

- (a) The construction should be limited to minor additions and alterations. A maximum permit value should be established, and projects with indicated values exceeding this amount should be transferred to the regular workload.
- (b) An aging period should be established. We suggest that approximately 90 days be allowed to elapse after receipt of the building permit before the self-reporting form is sent to the taxpayer.
- (c) An appraiser should review the returned forms and determine if a field review is necessary.
- (d) A self-reporting taxing system must have an audit procedure. We suggest that a systematic approach that encompasses at least 5 percent of all statements be conducted routinely and timely.

The self-reporting form is not effectively used by the appraisal staff in the San Francisco Assessor's Office. Currently, only one appraisal district crew uses this form with any regularity, and the remaining three district appraisal crews rely on it very little. The district appraisal crew that does use the form relies on the discretion of individual appraisers for the selection of new construction projects for which the form is mailed.

The appraisers' responsibility for selection and mailing of this questionnaire adds a clerical duty to the appraisal staff's workload which detracts from appraisal production time. It also results in a lack of uniformity of its application.

Also, we noted elsewhere in this survey report that the permit culling process, as used in the San Francisco County Assessor's office, severely restricts incoming building permits to be examined by the appraisal staff, and that this increases the risk of assessable new construction escaping valuation and enrollment. The self-declaration form could be used effectively as a check on the existing screening procedures.

The mailing of the self-reporting form should be made by a single clerical unit in order to track these requests for information and to insure taxpayer compliance. Centralized mailouts and effective consolidation of the processing of self-reported construction information would facilitate auditing of the information gathered as well as enable staff to gather data to determine the effectiveness of the program and to make the necessary cost effective changes.

We recommend that the assessor review the handling of the new construction self-reporting program. Properly administered, the taxpayer self-reporting of new construction expedites the appraisals of low-valued new construction and reduces appraisal field time, thereby freeing appraisers for other workload items.

c. Processing of Building Permits

There is only one primary building permit issuing agency in San Francisco. This is unique among the state's large urban counties. In our previous survey in 1990 we noted that of the 16,000 to 18,000 building permits issued annually by the Central Permit Bureau, approximately 8,000 to 9,000 permits resulted in assessable new construction.

By contrast, the Central Permit Bureau now issues 18,000 to 21,000 permits yearly, but of this number, only about 2,000 result in assessable new construction. It is evident that incoming permits are much more heavily culled than in the past, and that much of the permitted construction type formally determined as assessable is no longer considered as such.

Permit Information Available to the Assessor's Office

Obtaining and processing building permits is the primary means the assessor has to discover assessable new construction. For this reason, the timeliness and completeness of the information received is of paramount importance in the assessment of new construction.

Section 72(a) of the Revenue and Taxation Code requires a copy of any building permit to be transmitted to the assessor. The permit data required by the San Francisco County Assessor's staff is contained in the application for the permit rather than on the permit itself. In the past, a member of the assessor's staff copied the master application of those permits required by the assessor.

The Permit Bureau had rejected requests by the assessor for a procedure where the Bureau would automatically forward a copy of the application. Because of this, we recommended in our previous survey that the assessor request the county administrator to require the Central Permit Bureau to forward copies of all approved building permit applications.

In this survey we note that the assessor still does not receive a copy of the permit application, and no longer requests it. Instead, the Central Permit Bureau transmits permit data to the assessor in two daily computer printout formats. In the first format, information for those permits with estimated values below \$10,000 is limited to one printout line, and does not contain a narrative description of the permitted work. The second format showing permits with values exceeding \$10,000 furnishes additional usable detail, including a short narrative description.

RECOMMENDATION 31: Revise the processing of building permits by: (1) obtaining sufficiently detailed information for all permits from the Permit Bureau to facilitate accurate screening; (2) revising permit screening parameters (3) forming a separate permit processing

section with adequate clerical staffing and technical support; and  
(4) implementing direct terminal access to the Permit Bureau's data  
bank as soon as feasible.

### Obtain Sufficient Building Permit Detail

Building permits are reported in sequential order in two printout formats used to transmit permit data to the assessor's office. This facilitates proofing to ensure that none are missing and that no assessable construction escapes assessment. However, because the data that the assessor's staff receive on the one-line computer printout format does not contain a description of the permitted construction, it is not adequate for screening permits to determine assessable new construction.

To be useful in screening for assessable new construction, the permit reports should contain a description of the permitted construction. In screening permit data, staff require sufficient information in order to conditionally disqualify permits from further appraisal action.

We recommend that the single line reporting format be discarded, and that the assessor request that all permit reports contain adequate descriptions of the permitted work to be done. This will enable the assessor's staff to determine if a given permit should be forwarded to the appraisal staff for valuation. We strongly suspect that the present format contributes heavily to the dramatic drop-off in permit to new construction figures noted at the beginning of this section of the report.

Not all permitted construction activity results in assessable value added. Permitted work for remodeling, repairs, and maintenance is generally excluded from assessment under Article XIII A of the California Constitution. Permits for that type of construction can be culled and removed from further appraisal action. The establishment of permit screening parameters enable staff to separate the incoming permits into two categories: assessable construction to be forwarded to the appraisal staff, and permits to be noted for no current appraisal action.

Permit screening is required to focus appraisal attention on assessable new construction and maximize appraisal resources. However, there is a risk that in screening the incoming construction permits, some permits will be inappropriately culled and assessable new construction will escape enrollment. Thus, screening parameters must be set so that the maximum number of permits for nonassessable construction are culled, while escaped assessments due to improper permit screening are kept to a minimum.

In the San Francisco County Assessor's Office, screening parameters that have been in effect for a number of years include high dollar thresholds for estimated construction value, and in one instance, a category set by the Permit Bureau that could include assessable new construction of considerable value.

Current screening guidelines specify appraisal action in new construction, additions, and alterations designated by specific Permit Bureau categories. Estimated construction costs must exceed \$10,000 in order to be identified in the second printout format report that is received from the Permit Bureau.

Permits are screened by clerical staff in the standards section using general guidelines to discover assessable construction. And because the standards section is assigned a large number of other clerical responsibilities to be performed in addition to permit screening, the selection process for permitted work to determine assessability is most times perfunctory.

The screening and culling of building permits is performed on two levels. Permits reported in the first, one-line printout format that the assessor receives from the Central Permit Bureau are discarded and not tracked in any way. In most cases these permits are issued for what staff consider maintenance, repair, and minor remodels that are not assessable. However, descriptions of the permitted construction are necessary to confirm this and to ascertain that assessable construction does not escape enrollment.

The chief of the standards unit conducted a brief audit in January 1994 to determine how much assessable new construction might escape assessment because of the discarding of all the lower valued building permits. Based on responses he received from questionnaires sent to 50 assesseees who had been issued building permits for construction under \$10,000, he conducted that the amount was not significant.

In the second level of permit screening and culling, the assessment standards section culls the higher valued building permits reported on the second format that contains a brief description of permitted construction. Two criteria are used; estimated permit value, and the Central Permit Bureau's permit category. Generally permits issued for alterations, and remodels under \$100,000 are excluded from appraisal action. Permits issued under some other designated categories are also discarded and not tracked.

Permit screening in the San Francisco County Assessor's Office results in the discarding of about 90 percent of the total number reported by the Permit Bureau, and only 10 percent of all permits are retained for appraisal review.

Statewide, of those county assessors reporting total building permits received and new assessments resulting from permits, assessable construction was enrolled for an average (mean) of 45 percent of all permits received. Our previous survey of the San Francisco County Assessor's Office revealed an enrollment level of approximately 45-50 percent.

Screening parameters should be based on property tax guidelines and specify both the categories that may be excluded and those categories of construction that must be forwarded to appraisers for valuation and ultimate enrollment. The categories should be specific and in writing so that they are available for reference by staff. In many cases the types of construction (i.e., wooden decks, retaining walls, excavation, living area additions, sheds, etc.) should be specified, and the screening parameters defined for each.

We recommend that the building permit screening guidelines be revised to specify construction that must be examined by appraisal staff, and strictly define the categories that may be culled. New guidelines should be based solely on the requirements of property tax law, and no reliance should be placed on categories determined by the Permit Bureau. Re-examination of the current screening parameters and the implementation of more precise culling instructions should result in a lower risk of escaping new construction.

#### Form a Separate Building Permit Processing Section

The assessment standards section is charged with the responsibility for receiving screening, culling, and recording the incoming building permits. This section is assigned three clerical positions to handle a myriad of clerical support functions. Because of the total clerical duties assigned to the assessment standards section, the proper screening and culling of building permits receives less than adequate attention.

Adequate staff resources must be allocated to processing, screening, culling, and tracking of the building permits. In addition, the clerical personnel performing this function must have technical support from the appraisal staff to aid, not only in culling, but also in reviewing accumulations of building permits that may be issued to a single property parcel and should result in appraisal action.

We recommend that the assessor form an adequately staffed work section within the present technical services unit to be responsible for the receipt, screening, forwarding, and tracking of all building permits received from the Permit Bureau. The allocation of personnel to the proper processing of building permits would result in more accurate screening of incoming permits for discovery of assessable new construction.

#### Expedite Direct Terminal Access to the Permit Bureau's Data Bank

Section 72(a) of the Revenue and Taxation Code states:

"A copy of any building permit issued by any city, county, or city and county shall be transmitted by each such entity to the county assessor as soon as possible after the date of issuance."

However, as noted in previous survey reports, San Francisco County is unique in that the information the assessor's staff need to screen building permits is found in the permit application rather than on the building permit itself. In the past, the assessor's staff made copies of building permit applications at the Permit Bureau, but had difficulties tracking those copies that were missing from the Permit Bureau files. Staff also encountered difficulties in obtaining permits in proper sequence of issuance, making auditing for missing permits difficult. Consequently, some permits were overlooked and the resultant new construction escaped assessment.

In prior survey reports we have recommended that the San Francisco County Assessor's Office establish methods for obtaining complete permit data from the Permit Bureau. And we have noted elsewhere in this report the inadequacies found in the current Permit Bureau reporting of permitted construction activity.

The assessor's staff have now made progress in establishing direct access to the Permit Bureau database through computer terminals in order to obtain the data necessary to effectively process building permits. However, it is not yet operable. With the proposed direct access, assessor's staff would have access to needed information that is recorded on the permit application; and, because the data is input from the application at the Permit Bureau, the data displayed at the assessor's terminal would be current. We urge the assessor to make every effort to see that this proposed direct terminal access program is implemented as soon as possible.

RECOMMENDATION 32: Maintain a list of discarded building permits. Periodically review the list for accumulated construction activity occurring at one site or project that may indicate assessable new construction.

Because of the heavy culling of building permits that is done in the San Francisco County Assessor's Office, we recommend that the assessor's staff take precautions to make sure multiple permits for separate construction activities that may be issued for a single property or project for assessable new construction are not summarily discarded.

The Permit Bureau may issue separate construction permits to separate contractors for a single reassessable event. Therefore, while permits for all-encompassing "tenant improvements" may be retained for appraisal action, separate permits issued for partitions, flooring, electrical, air conditioning, heating, and plumbing are discarded either for being low in permit value or permit classification. Yet, accumulatively they could represent installation of similar "tenant improvements."

Staff appraisers should be made aware of all the component permits before making a decision regarding reappraisal. Listing or logging of all permits would aid in the timely discovery of assessable new construction indicated by the accumulation of permits to a particular property. When several permits are issued to a given Assessor's Parcel Number (APN) or to a given leasehold tenant within a short period of time, the appraisal staff would be alerted to inspect for assessable construction.

We recommend that discarded permits be listed alphabetically by assessee or lessee, and by APN. These lists should be periodically reviewed to search for groupings of permits that, in aggregate, indicate assessable construction activity. In this way staff will reduce the risk of escaped assessable new construction arising from the discarding of separately issued construction permits.

### SUGGESTION 3: Log all permits on appraisal records.

Because building permits are intensively screened in the San Francisco County Assessor's Office, only a small portion of the permits received are documented in the appraisal records. We noted a number of parcels for which permits were issued but not recorded either in the appraisal record or listed in the appraisal file.

All construction permit information is useful to an appraiser, whether or not a given permit involves assessable new construction. Appraisers need records of all prior permit information in order to make informed judgments about current condition, quality, appeal, and market value. This is especially true in the event of a nonsale property transfer. A building permit-issuing agency may issue separate construction permits to various subcontractors for a single reassessable event. A listing of all the component permits helps appraisers make and document a decision to reappraise. Prior permit data also aids in making adjustments due to damage by fires or calamities.

Permit data also furnishes valuable points of reference for coordination between the real property and business property sections in analyzing structural costs reported by taxpayers on Schedule B of the Business Property Statement. Coordination between real and business property divisions is essential in separating real property construction assessable under Article XIII A of the California Constitution from business property that must be valued each year and that are commonly misreported by taxpayers as real property structural improvements. Building permit information recorded on the appraisal record also provides real property appraisal staff with points of reference for instances where the business property division has relayed data on construction costs for assessable new construction that was initially culled by the permit processing section.

We suggest that the processing of building permits be expanded to include the logging of all permits in the affected appraisal record. This should include those that are subsequently discarded because assessable new construction did not occur and those issued for assessable new construction in order to maintain continuity of records and provide full documentation for all reappraisals.

#### d. Appraisal Records

Our review of properties with new construction brought to our attention appraisal records with less than adequate documentation of the structural improvements. In addition to omissions of the source of the unit cost used by the county appraiser to calculate the value of assessable new construction, we also noted that many appraisal records did not contain detailed descriptions of the structures themselves.

#### Building Diagrams

Most appraisal files should contain diagrams of buildings as the means to record structural improvements. Where there is more than one building, many assessors also require

that staff appraisers make a plot plan showing the location of each building on the parcel. Some assessor's offices have begun use of blueprints received from building departments in lieu of drawings made by appraisers to document and record these structural improvements. With a building diagram or blueprint, an appraiser can verify dimensions and floor areas to facilitate the discovery of escaped assessable new construction.

### Building Record Forms

Appraisers use the same record form or building card to record commercial, industrial, and residential buildings. While the building record is color coded for the three different use types, the information fields on all three are identical. Also, both land and building data is entered on a single record form.

The building record form itself should be designed so that it serves as a detailed checklist for appraisers in gathering and recording property characteristics. Separate forms requiring appraisal input of data that is pertinent to the particular use type should be used since different property use types can have valuation requirements and typical building construction parameters that vary considerably. For example, information fields useful in the analysis of commercial properties may include spaces for data input on elevators, parking garage areas, commercial use type, storefronts, and data that indicate both pedestrian and vehicular accessibility. Typically, such data are not pertinent to valuation of residential property. The assessor should adopt at least three building record forms that adequately record the different property characteristics pertinent to valuation of commercial, industrial, and residential uses. Consolidation of data pertinent to valuation of different types of real property will serve as a checklist to help appraisers focus on the appropriate property characteristics and contribute to appraisal analysis and reviews as well.

### Record Property Characteristics

In the San Francisco County Assessor's Office, many property files contain building cards with inadequate appraisal entries of property descriptions. Staff were not, in many instances, entering building characteristics and other descriptive property data.

Appraisal records must contain adequate appraisal entries describing type and quality of construction, structural components, descriptions of exterior and interior finish, as well as mechanical, electrical, and plumbing details.

When assessable changes are made to the structure, the basis of the new appraised value such as source of construction costs, area added, type of construction, diagrams, building permit information, and calculations must be entered in the structural or building record. A short narrative description of construction activity, even when no value was added, aids evaluations in future appraisal actions.

When enrolling the value of new construction, appraisers should document the basis for revaluation on the appraisal records. Without such documentation, the value cannot be

subsequently defended, reviewed by a supervisor for correctness, or provide adequate basis for analysis by another appraiser.

The appraisal staff should consistently record structural and property characteristics, dates of reappraisals, reasons for reappraisals, valuation method(s) used, and valuation parameters considered on appropriate appraisal forms. Consistent and systematic recording of property characteristics will provide precise documentation that aids all appraisal activity.

e. Tenant Improvements

Introduction

The San Francisco commercial rental market is complex and highly competitive, with almost 40,000,000 square feet of commercial space in the business district alone. Most commercial space is leased. Building owners provide, and tenants accept, commercial rental space in varying degrees of interior completion. Space may be rented as a shell without any amenities, or with all interior partitions, fixtures, and floor, ceiling, and wall finishes installed. Interior amenities that are installed in addition to the building shell are tenant improvements (TI's). These improvements can be paid for by either the property owner or lessee. The assessment of tenant improvements in a rental market as complex as San Francisco is a most difficult problem for an assessor's staff.

Cash discounts and rent abatements are some tenant improvement conventions that are routinely written into lease contracts as TI allowances. These may vary widely, depending on the quality of the finished installations, and in accordance with the tenant's needs or ability to negotiate. Tenants may use the allowance as they wish since actual construction may not be specified in the rental contracts.

In this sense, TI allowances may be considered incentives for tenants to rent or to renew leases. A landlord or property management firm does not necessarily track whether actual TI's were installed when a cash payment has been made. Tenants may be paid according to TI allowances specified by individual rental contracts without actually constructing or installing specific improvements or alterations. In some cases, a new tenant may utilize improvements abandoned by a previous tenant and not use the TI allowance received for the construction of new tenant improvements, choosing instead to apply the allowance specified in the rental contract toward a reduction in the monthly rent.

Notwithstanding that a building owner or manager may pay such a TI allowance to the tenant and may declare it on the business property statement as a structural cost, such payments may really be rent credits; they do not necessarily indicate that new construction has occurred.

## Assessment of Tenant Improvements

Tenant improvement allowances are used by property owners to attract new tenants or to offer current tenants incentive to renew or extend their lease contracts. Either the property owner or the lessee may construct or upgrade the premises, and the changes may be paid for by either or both. The assessment resulting from the changes may go to the owner or the lessee depending upon who pays for installation of the tenant improvement and reports it to the assessor's office on the annual business property statement. The value of TI's may be allocated to both the property owner and the lessee when the tenant pays for upgrades that cost more than the landlord's allowance. Should a lessee vacate the premises and abandon the tenant improvements, the appraiser must determine whether the abandoned improvements would bring additional rental income from a new tenant. If so, they would have value that should probably be assessed to the landlord once the tenant has vacated the premises.

## Tenant Improvements in San Francisco County

Our review showed that there are serious problems with the way tenant improvements are assessed in the San Francisco County Assessor's Office. The following recommendation addresses the separate deficiencies in current procedures.

RECOMMENDATION 33: Revise procedures for assessing tenant improvements: (1) value and enroll tenant improvements uniformly; (2) investigate tenant improvement costs reported on business property statements; and (3) obtain and review current leases for provisions regarding tenant improvements.

## Uniform Valuation and Enrollment of Tenant Improvements

The San Francisco County Assessor's Office generally values commercial/industrial and major income-producing property by the income approach, using a rent that assumes that all TI's have been installed. For this reason, the real property division concludes that the construction costs reported on business property statements for secured accounts in years subsequent to the base year established for the building do not represent assessable new construction, but are included in the base year value of the building.

These added tenant improvements must be assessed as new construction as of the date they are completed. Tenant improvements added by the landlord after the basic building is completed may be discovered through building permits issued to the landlord, or through costs reported on Schedule B of the Form 571 L (business property statement). Regardless of how they are discovered, they must be assessed as of the date they were constructed.

The real property division also considers improvements reported on unsecured (tenants') accounts to be personal property and takes no action to investigate property statements forwarded by the business property division.

Currently, there is a policy for the business property division in the San Francisco County Assessor's Office to enroll all tenant improvement costs reported for unsecured business accounts, but not to enroll those costs reported for secured accounts. All unsecured structural costs exceeding \$500,000, as well as reported structural costs for secured accounts that exceed \$50,000, are to be forwarded to the real property division. The real property division is not to investigate any expenditure for less than \$50,000 reported on a secured property statement, except in the rare instance when it can be related to an outstanding building permit. Unfortunately, there have been no responses or analyses of any reported costs by the real property division to date.

In addition to the real property division's failure to investigate and enroll tenant improvements, involving an expenditure for less than \$50,000, there are also three inconsistencies in the way tenant improvements are valued in cases where they have in fact been enrolled. First, because the real property division considers structural improvements reported for unsecured accounts involving income producing properties to be personal property, these improvements are valued and enrolled by the business property division. This results in these improvements being depreciated annually when in fact those that are real property structures should receive the annual index for inflation.

Secondly, tenant improvements to land or structures are real property subject to supplemental assessment, but the business property division does not enroll supplemental assessments for the tenant improvements it assesses because all TI's are arbitrarily classified as fixtures, while the real property division does enroll supplemental assessments for tenant improvements included in new construction or a transfer of real property.

A substantial amount of tax revenue is being lost due to the failure of the assessor's staff to issue supplemental assessments for leasehold improvements. While some of these assessments may be small, many would have been for significant amounts. Individual leasehold improvements are often over \$1 million. One such business completed construction over \$4.2 million of unsecured leasehold improvements on November, 1992. No supplemental assessment was issued. Using just the base tax rate of 1 percent of the assessed value of the subject property, prorated for the remaining seven months of the roll year, approximately \$24,000 of tax revenue was lost on just this one leasehold improvement. This was not the largest example discovered, but fairly typical of many accounts we reviewed.

We recommend that supplemental assessments be levied on all construction of new leasehold improvements which are correctly classified as real property other than fixtures, including those assessed on the unsecured roll.

A third deficiency in the assessment of tenant improvements is that TI's that have been abandoned by tenants who vacate leased or rented premises are not tracked. Instead, the business property division simply deletes them from the unsecured assessment.

The real property staff should investigate abandoned tenant improvements. If the premises remain vacant for an extended period of time, the value, if any, of the tenant

improvements should be added to the landlord's secured assessment. When the premises are again leased or rented, the real property appraisers should determine whether the new tenant is using the tenant improvements or has torn them out and replaced them. If they have been demolished, their value should be deducted from the landlord's assessment.

We recommend that the assessor insist on the uniform treatment of tenant improvements, to include a common valuation methodology, the assessment of tenant improvements on both the regular (Section 601) and supplemental rolls, and the systematic tracking of tenant improvements to ensure that they are properly assessed.

### Investigate Reported Tenant Improvement Costs

Another problem is that many property owners and lessees report costs for structural improvements when in fact the costs were incurred for work that would properly be classified as normal maintenance and repairs, i.e., the costs do not represent assessable new construction. Also, a new tenant may incur demolition or tear out costs to remove obsolete existing construction and fixtures. Neither are assessable under Article XIII A.

There is an added risk that business property will escape assessment when structural cost declarations are not analyzed by both divisions. Taxpayers often make errors separating real property costs from taxable fixtures on the business property statements, or they misclassify the item as fixture instead of structure or vice versa. But unless there is an investigation of the reported costs, escapes or erroneous assessments will result.

Because no investigation of reported tenant improvement costs is done at this time in the assessor's office by either the real property or the business property division, erroneous assessments or escapes of taxable real or personal property could occur.

The assessor's office has a written requirement for the referral of tenant improvement costs from the business property division to the real property division, but referrals that are not followed up on are useless. We strongly recommend that the real property division investigate all items referred to it by the business property division.

### Obtain and Analyze Current Leases for Tenant Improvement Data

Currently, in the San Francisco County Assessor's Office, no lease data is maintained in the appraisal files concerning current tenants, except for the largest and most valuable properties in the county.

Maintaining current lease information in the appraisal files is very important and helpful to the assessor's staff. Appraisers can analyze lease information to determine current rent with levels and to extract information essential to a sound appraisal of land and building. Moreover, because leases may also specify tenant improvement allowances, both the real property appraiser and the auditor-appraiser can determine the appropriate method for assessing and allocating tenant improvements installed after completion of the basic structure. And, current

leases will provide names of landlord and lessees, information that will prove helpful when evaluating the status of abandoned tenant improvements.

We recommend that staff compile and maintain current lease data for income-producing properties in San Francisco. This will aid in all areas of real property valuation as well as provide a foundation for the valuation of tenant improvements.

## B. INDIVIDUAL PROPERTY TYPES AND PROCEDURES

### 1. Valuation of Major Properties

#### Review of Selected Major Property Files

The City and County of San Francisco is a national and international business center with a tremendous geographic concentration of real estate value in the downtown financial district, including a number of large, investment-grade commercial properties. The valuation of these properties is the most difficult part of the real property valuation workload.

Under California Revenue and Taxation Code Section 51(b), the taxable value of a property cannot exceed its market value on the lien date of any given tax year. With the real estate market in California declining since 1990, assessments throughout the state have been appealed on this basis. The appeals typically involve properties which transferred in the mid-to-late 1980's, the cyclical height of the market before the downturn. (These assessments have been reduced on a conditional basis: if market values increase, the assessment must be raised up to the lower of current market value or factored base year value.) In the County of San Francisco, a large number of major property assessments have been appealed because of the decline in market revalue and this has dramatically impacted the valuation function.

The San Francisco Assessor's Office has received scrutiny recently for significant assessment reductions involving large income-producing properties, typically large office buildings or hotels, whose assessments are under appeal. Although these high profile reductions were made as a result of decisions by the Assessment Appeals Board in accordance with Section 51(b), mentioned above, there was criticism put forth implying that the reductions were due to poorly-prepared appraisals by the assessor's staff presented at the appeals hearings.

A decision was made by the county, in 1994, to make large-scale use of independent contract appraisers to handle the expanding appeals workload, a unique practice in the state. Existing staff, due to retirements and staffing cutbacks which preceded the tenure of the incumbent assessor, was not able to handle all of the appeals workload. The contract appraiser group is comprised of experienced appraisers; most of them have years of experience in property tax assessment and/or private appraisal. They have completed about 350 appraisals to date, most of them involving the large, more complex properties under appeal for 1993, and then continuing into 1994, but on a reduced basis. The assessor plans to end the use of contract appraisers with the 1995-96 fiscal year. If the volume of assessment appeals remains large, it

will be a challenge to transfer all of this workload to the assessor's appraisal staff. In recognition of this, the assessor has recently acted to hire six real property appraiser trainees.

We reviewed the files of 30 major properties, including all of the properties publicly mentioned, and a second group of selected major properties. In most cases, assessments on the properties had been reduced due to an assessment appeals action; in many cases, the properties were subject to multiple assessment appeals spanning several consecutive years. With but a few exceptions, all of the files we reviewed contained appraisals prepared by contract appraisers rather than by office appraisal staff. They also typically included detailed appraisals submitted by the property owner or the owner's agent.

We reviewed the appraisals prepared by the contract appraisers or by the assessor's staff to determine the adequacy of the valuation methods employed (i.e., cost approach, sales comparison approach, income approach) and market data support for the valuation parameters chosen (i.e., income and expense data, vacancy, capitalization rates). Each of the assessor's appraisals, whether prepared by staff or contract appraisers, used at least two approaches to value, typically sales comparison and income (direct capitalization), and each contained market data supporting the selected valuation parameters. Each of the appraisals contained at least the minimum elements for a credible valuation. There was no evidence of any bias, high or low, in the appraisals we reviewed; each attempted to estimate the relevant value, usually the current market value as of March 1 of the appropriate appeals year.

The recommended value by the assessor's staff or contract appraisers at the appeals hearings is often significantly below the existing assessment, but this does not indicate a poor appraisal. Real estate values have been declining in California for at least the past five years, and San Francisco is not immune to this decline. Using high-rise office buildings as an example, our review of files, and the market data contained in them, showed at least a 20 percent decline in economic or market rents from the market height. Such declines in economic rents translate directly into lower current market values, and as noted above, the assessor, by law, must recognize this decline by lowering the assessment of properties where the existing assessment is above the current market value. Thus, it is not unusual or improper for the assessor's office to recommend a value significantly below the current roll value at an appeals hearing, or to offer a stipulation at a reduced amount. The large assessment reductions are due to the declining real estate market and the California property tax law that mandates relief under these conditions.

### Review of ASD Sample Appraisals

The Assessment Standards Division's (ASD's) sample of the San Francisco County assessment roll ((1990-91) identified 65 sample items involving commercial properties (primarily retail, hotel and office). Of this sample, 32 properties had assessed values greater than \$5 million; 21 properties had assessed values greater than \$25 million; and 15 properties had assessed values greater than \$100 million.

From the total sample of 65 commercial properties, ASD-appraised values and county-enrolled values were in agreement in 51 of the cases; 14 samples showed differences.

There were six cases where ASD-appraised values exceeded the county-enrolled values; this can be statistically expanded to the entire roll to indicate about 219 properties of this type undervalued with an estimated aggregate value of about \$299 million. For the eight properties in which the county-enrolled values exceeded ASD-appraised values, statistical expansion indicates that about 2,056 properties were overvalued with an estimated aggregate value of \$385 million.

The sample results can sometimes uncover a systematic or inherent problem or problems with a county's valuation program; if the same problem occurs several times in the selected sample, there may be an inherent problem. In four of the 14 cases showing differences, the reason was escaped new construction; that is, the county failed to enroll assessable new construction. This problem is discussed in the "New Construction" section of this report. In two of the cases, there were differences of opinion regarding the assessable value of new construction; that is, the new construction had been discovered but the ASD appraiser disagreed with the county appraiser over its assessable value. This was due to a difference in the cost estimate. In two of the cases, the county failed to apply the annual index factor properly; in two of the cases, the difference involved a personal property assessment. In two of the cases, ASD used a lien date estimate of market value (in accordance with Revenue and Taxation Code Section 51(b)), and the county used the higher factored base year value. This is a decline-in-value issue and is also discussed elsewhere in this report. Finally, there were two instances in which there was a difference of opinion regarding the estimated value of the property as of the relevant valuation date; that is, the ASD and the county used different value parameters (e.g., income and expense estimates, capitalization rates) in their respective valuations.

### Problem Areas

Our review identified several problem areas which degrade the valuation function, either directly or indirectly. All of these problems are long-standing and pre-date the tenure of the incumbent assessor. Recommended changes in these areas would improve the valuation function in regard to major properties.

RECOMMENDATION 34: Improve the quality of commercial property valuation through: (1) better control, organization, and maintenance of appraisal files; (2) better capture, storage, and use of appraisal market data; (3) specialized training for appraisers valuing complex properties; and (4) written procedures for appraisals and their documentation.

### Better File Control, Organization and Maintenance

The file problem is long-standing and has several facets. First is the issue of file control. A lost or misplaced file, which would be treated with some alarm at most assessor's offices, is not unusual in the San Francisco County Assessor's Office. Reportedly, on several occasions, files could not be located for properties subject to assessment appeals. The survey team also had trouble locating some files, even with the aid of the assessor's staff.

The present physical organization of files is not conducive to efficient check-in/check-out and control. Files are currently stored in standard three-drawer filing cabinets situated along several walls of the office, and appraisers have free access to the files. Although an "outcard" system is ostensibly in effect, we observed it to be mostly ignored.

For the number and type of records involved, we recommend an open-shelf system within a file room or otherwise well-defined area. This type of system takes less time for finding and refilling folders, reduces misfiling, and requires less space. Access to the file should be controlled, with a file clerk responsible for pulling and refilling all files, or, if appraiser access is allowed, an "outcard" system should be strictly enforced. A state-of-the-art system also includes "bar-coding," which checks out files in the manner that books are checked out in many public libraries; this creates an electronic record of who has checked out each file.

A second problem is the lack of internal file organization. The files do not have a standard organization, and documents are not placed in the files in a standard order; they often appear as merely collections of papers, often in the form of informal notes or calculations. Building permit and change in ownership data are often not maintained in the files, and many standard documents such as change in ownership statements, building permits, and deeds are not posted to the files. Finally, the files are not purged on an on-going basis; our review showed that many files contained documents no longer relevant to the assessment of the property.

We recommend a written procedure prescribing the proper contents of a file and the physical ordering of the contents; the procedure could also list items which could be safely purged from the files. These procedures could apply on a prospective basis; whenever an appraiser handles a file, he or she could be responsible for organizing it and purging it according to procedures.

The file problem is of sufficient magnitude that it materially degrades the valuation function. It has been noted in prior ASD surveys of the assessor's office (1971, 1983, 1990) and in other management audits. Its importance may justify vendor assistance, such as an outside file or records management concern, to assist in correcting the problem.

### Appraisal Market Data

It is of obvious importance for an assessor's office to systematically collect, analyze, and store primary market data involving the sale of major income-producing properties. A convincing and supportable valuation estimate requires good and sufficient data. Unfortunately, this is not being done well in the San Francisco County Assessor's Office.

Base upon interviews with income property appraisers, both those on staff and on contract, it appears that each appraiser is informally keeping his or her own data and analysis of sales, and sharing them with other appraisers on an ad hoc basis. Each appraiser is, so to speak, "keeping his own book." In some cases, the information is not being kept by anyone. We were made aware of a meeting held with some of the contract appraisers where market data was discussed. No doubt that information was made available to the staff. There were several

instances in the files we reviewed where sales information was not analyzed by the appraiser; the reported sale prices were simply enrolled. The office does subscribe to a commercial data service for incoming-producing properties, but this must be considered a secondary data source, not a primary one.

We recommend that a standard form be developed for analyzing sales (adjusting sales prices, if necessary, and deriving capitalization rates and units of comparison); this would insure completeness, consistency and theoretical correctness. Copies of these forms should be centrally retained for future review and use by appraisers. Data from change in ownership statements and income and expense questionnaires (these should be mailed on all transferring major properties) should be centrally retained by simply filing copies of these documents by situs or by APN, thus making the information available to appraisers. The next logical step is to enter sales data into a PC or mainframe-based database for future use. The real property division is expanding a local area network (LAN) for various applications, and this would be a good site for a commercial sales database.

Secondary data sources should not be overlooked. Periodic reports are available from local and regional realty firms regarding the real estate market, including leasing and vacancy studies. Several high-quality periodicals and newsletters are available devoted to investment real estate in general, or to specific property types (e.g., hotels, shopping centers). The office may already be collecting some of these materials, but they should be catalogued and retained in a central place for review by appraisers as needed.

### Specialized Training

The issue of general training for appraisers is separately discussed in another section of this report. Here we are addressing specialized additional training for appraisers responsible for the valuation of major commercial properties, typically high-rise office buildings, hotels, and shopping centers. Such appraisers should, of course, receive thorough training in the income approach to value (from the State Board of Equalization or other credible source). In addition, further training in the appraisal of these specialized property types is important. Such training is offered by national appraisal organizations, by industry groups, and occasionally by the State Board of Equalization, in either seminar or full-course format. Appraisal texts dealing with these specialized property types should also be acquired and retained in the office.

The assessor recognizes this need for specialized training and some training in this area has occurred. We strongly encourage the continuation and acceleration of this effort.

### Standard Valuation Methods and Documentation

This is also a problem that has been noted in prior ASD surveys of the San Francisco County Assessor's Office. Our review of major property files included many properties which transferred or were newly-constructed in the mid-to-late 1980's, providing an opportunity to review the level of analysis done when the base year values for these major properties were last established in addition to the more recent assessment appeals preparation

discussed earlier. In most cases, the reported sale price was simply accepted as market value without any supporting analysis, and there was often no attempt to analyze the subject sale for use as future comparable data. No appraisal was done, even cursorily, to corroborate the reported sales price as market value.

For residential properties, and smaller commercial properties where market activity is greater and values easier to estimate, it may be acceptable to accept the reported sale price in most instances without performing a corroborating value estimate, especially in this era of declining budgets. However, for major commercial properties we recommend that at least two, and perhaps three approaches to value be utilized in order to confirm that the reported sale price is within the market range. This would include an estimate of value by the income approach (direct capitalization), the sales comparison approach, and perhaps the cost approach.

In reviewing major property files, we found only one example of a cost analysis performed by the assessor's staff. Several of these properties were newly-constructed, and the initial assessment was largely based on the cost approach, yet the only cost analysis in the file was provided by the owner's tax agent. We recognize that the cost approach may not produce a reliable indicator of value in many cases, but it appears to have been totally abandoned by this office. While the county does subscribe to a widely-used commercial cost service in book format, this service is also available in a PC-based format that is quicker, easier-to-use, and produces a printed, standard cost report. This would also be a good application to install on the real property division's LAN.

Current file documentation for changes in assessments is minimal. Many of the files we reviewed contained no documentation of transfers or new construction assessments beyond undated, unsigned sheets of paper with cryptic notes and quick calculations; some did not even contain this. Of the 30 major property files that we reviewed, only one contained a drawing or plan view of the building. The building size was noted on the property record, presumably taken from the plans.

For a major property change in ownership reassessment, minimum documentation should include the date of valuation and document number, the change in ownership statement, a statement of current income and expenses (particularly if the change in ownership does not contain this detail), the derivation of the capitalization rate and units of comparison from the sale, and finally the valuation analysis itself.

For major property new construction, where the cost approach is often relied upon, the file should contain the reported historical costs from the owner as well as an independent cost estimate prepared by the appraiser as a check against the reported costs. Section 72(c) requires the assessee to furnish a scale building plan for the assessor when filing for a building permit. Especially for major properties, the assessor's office should obtain these plans from the permit bureau. (Some counties photo-reduce the plan for the appraisal file.)

We strongly recommend a short narrative description of actions taken on a parcel, dated and initialed, in chronological order on a preprinted remark form. This would provide a

focal point for the files and would be particularly helpful for major properties. The remarks should summarize the assessment actions taken and refer to supporting analysis elsewhere in the file.

Finally, file documentation should be on a standard form or follow a standard format, whenever possible, rather than each appraiser selecting his or her own style and format. Narrative remarks and the valuation approaches (cost, sales comparison, income), for example, should be on standard forms.

We recommend a written procedure prescribing the level of analysis required for the various property types for changes in assessment and the minimum acceptable level of file documentation for the assessment change as described above.

## 2. Possessory Interests

The San Francisco County Assessor's Office assesses over 2,700 taxable possessory interest (PI's) of all types with a total 1994 assessed value in excess of \$1.2 billion. Two members of the appraisal staff are responsible for the appraisal of possessory interests, and they annually contact 39 public agencies in person or by letter to obtain current information on new or changed tenants and rents.

In the past two years, at the assessor's direction, the staff have conducted an intensive effort to discover previously unassessed possessory interests. To date, they have enrolled \$130,000,000 in escaped PI values and have issued proper escaped assessments for all newly discovered accounts. The staff are continuing in their discovery program and are in the process of valuing and enrolling even more escaped assessments. In addition to aggressive discovery of escaped possessory interests, staff appraisers have reviewed past procedures, discovered errors, and made corrections as necessary.

Changes in the assessment of PI's that have been made to date have been time consuming. One reason is that PI assessments are an unfamiliar topic, even in government. The affected city agencies have resisted requests for data that were made by the assessor's staff, strongly questioning their validity. To counter these city and county agencies' initial resistance to requests for data, staff have conducted seminars on the legal bases and the methods of valuation used to assess this often misunderstood property right.

All escape assessments of possessory interests have not yet been completed. Possessory interests are created by repeated uses of city and county-owned facilities for trade shows, exhibitions, and other recurring events. Much preliminary work has been completed in enrollment of possessory interests at the convention centers, where those events occur. Also, the staff are aware of an escaped possessory interest held by a cable television operator at Treasure Island and have begun gathering data for its enrollment.

Overall, we found the PI valuation and assessment program well organized. With the appraisal staff's attention to, and their commendable efforts made toward, the enrollment of escaped assessable PI's, much improvement was evident.

The reviews and enrollment of escaped assessments that were made in addition to maintenance of existing PI assessments have made major demands on staff's time. We concur that the enrollment of escaped assessments was a high priority, and that management and the appraisal staff correctly identified and addressed it as such.

The PI staff appraisers recognize that other changes are necessary, and they plan to make them as time allows. In reviewing the entire PI assessment program, we noted several areas, both new and continuing, in which we recommend that changes be made in order to bring it into full compliance with statutory requirements. For this reason, we repeat a portion of our earlier recommendation contained in our 1990 survey of the assessor's office, and we recommend that additional revisions be made to the assessment of possessory interests.

RECOMMENDATION 35: Revise the possessory interest assessment program by: (1) annually reappraising month to month tenancies; (2) ceasing the assessment of possessory interests in nongovernmental properties exempted by Article XIII of the California Constitution; (3) reviewing terms of possession; and (4) requesting notification of issuance of construction permits issued by, and enrolling assessable new construction at, the Port of San Francisco.

#### Annually Reappraise Month to Month Tenancies

San Francisco County has many possessory interests that are tenancies with month to month leases or have terms of possession that are one year or less. While the staff have initially valued many of these interests by capitalizing a rent over an estimated term of occupancy, we noted that many of these interests have not been reappraised for a number of years, and as a result their roll values may not reflect the full value indicated by current market rents.

In our 1990 survey of the assessor's office, we recommended that the county reappraise possessory interests with month to month tenancies on an annual basis. Such tenancies, based on monthly renewals of leases, should be treated as annual changes in ownership and be reappraised annually as required under Revenue and Taxation Code Section 61(b). This subsection requires reappraisal upon "The creation, renewal, extension, sublease, or assignment, of a possessory interest in tax exempt real property for any term." Annual reevaluations on PI's with short contract terms should be based upon current market rents and reasonably anticipated terms of possession as called for in Property Tax Rule 23(b).

We again recommend that short term PI's be reviewed and reassessed on an annual basis using estimated current rents and anticipated terms of possession for conformity with the requirements of law. Annual reappraisals based on and annotated with current rents,

reasonably anticipated terms, and capitalization rates, would insure that these PI assessments reflect full values based on current market indicators.

### Improper Possessory Interests in Nongovernmental Properties

In our 1983 and 1990 surveys of the assessor's office, we recommended that the county cease assessing possessory interests in nongovernment properties exempted by Article XIII, Section 4(c) of the state constitution and by Revenue and Taxation Code Section 203.5

In our current review, we found that PI assessments still exist on parcels owned by nongovernmental entities that are constitutionally exempt from property taxation.

Section 203.5 of the Revenue and Taxation Code specifies that "Property owned by the California School of Mechanical Arts, California Academy of Sciences . . . . or their successors, shall be exempt from taxation as provided in subdivision (c) of Section 4 of Article XIII of the Constitution."

Property Tax Rule 21(b) defines a taxable possessory interest as occurring in nontaxable publicly owned real property. Because the properties in question are owned by private nontaxable entities, there can be no taxable possessory interests.

We once again recommend that the possessory interest assessments on tenants of these tax exempt nongovernment properties be removed from the assessment roll to comply with the applicable constitutional and statutory provisions.

### Reviewing Terms of Possession

The term of possession is a critical component and one of the most difficult to estimate in the capitalization process when valuing possessory interests. While in some cases the written agreement creating the possessory interest offers the primary indication of the term, the intent of the lessor and lessee is a stronger guide. Intent is indicated by selling prices of PI's, past use, the policy of the public agency that owns the fee interest, and the actions of the lessor and lessees.

After reviewing a number of records of possessory interests of properties located at the Port of San Francisco (Port) and the San Francisco Marina Yacht Harbor (Yacht Harbor), we noted capitalized PI values were often based upon conservative terms of possession that did not meet the above tests.

For instance, at the Yacht Harbor, where a typical boat berth occupancy began prior to 1972, rents were capitalized using a 10 year term. There is a waiting list for berths that the harbormaster's staff estimate to exceed 10 years. At the Port, we found actual tenancies ranging from two and one-half to eight times longer than the estimated terms used by the assessor's PI appraisers.

When capitalizing a market rent into a value indicator, Property Tax Rule 23 requires the assessor to use a reasonably anticipated term of possession, whether the term is shorter or longer than specified in the written agreement. Among the factors the assessor should consider in estimating a term of possession are the history of the property's use, the policy of the public agency that administers it, and the intent of both the public owner and that of the possessor. When the purpose of the appraisal is to determine the market value of a possessory interest, the term of possession must reflect the consensus of the marketplace, and its selection is an important component of the PI appraisal.

We recommend that the assessor's staff periodically review terms of possession, especially those of short-term leases with month to month or year to year agreements, and make revisions that more closely reflect actual practice.

Enroll Assessable New Construction; Request Notification of Construction Permits Issued by the Port of San Francisco.

Possessory interest assessments are comprised of both land and improvements. Value added by construction of improvements by lessees is assessable, and must be enrolled. The San Francisco appraisal staff make note of major possessory interest new construction projects and enroll them in a timely manner. For example, they have gathered costs of construction in progress by a major lessee at Pier 39 on the March 1 lien date and enrolled those values. However, as we previously noted, emphasis has been placed on discovery and enrollment of escaped PI's. In general, the enrollment of new construction has been relegated to a lower priority.

In some instances assessable new construction on possessory interests has not been enrolled for over five years. In one case, a building permit issued for construction estimated in excess of \$500,000 and involving assessable structural additions as well as remodeling and repairs was not processed for enrollment of added value.

The Port of San Francisco is a second building permit issuing agency in San Francisco County. In the past, assessor's staff received permit information from the Port. Since 1990 this information has neither been requested nor received, due in part to staffing problems at the Port. Since that time, the Port has issued more than 500 construction permits. None have been examined by assessor's staff for assessable new construction.

Section 72 (c) of the Revenue and Taxation Code requires that a permit-issuing agency forward a copy of the permit to the assessor. Copies of all permits issued by the Port should be requested by the assessor so they can be examined for assessable construction.

New construction assessments can be time consuming, and it will become difficult to timely enroll future permitted construction if the current backlog is not cleared. While the current PI workload has required staff to delay the enrollment of new construction, we mention elsewhere in this report that the enrollment of new construction carries with it a priority for timely handling. Section 532 of the Revenue and Taxation Code provides a four-year statute

of limitation during which escaped assessments may be issued. A delay that exceeds this time period results in permanently lost revenues in the form of escaped assessments in earlier roll years that cannot be enrolled because of this limiting statute as well as a permanent loss of applicable supplemental assessments. The delay in making PI assessments for construction currently exceeds five years.

We recommend that staff assess the construction backlog as soon as possible, starting with those that have been or shortly will be affected by the statute of limitations, and to issue escaped assessments. They should request assistance from other real property sections in order to expedite enrollment if necessary. This will minimize assessable new construction values from earlier roll years permanently escaping assessment due to the four-year statute of limitation.

### 3. Section 236 of the National Housing Act

In 1968 a program of federal assistance to rental and cooperative housing was authorized by adding Section 236 to the National Housing Act. The program was designed primarily to serve families, elderly households, and handicapped individuals whose incomes exceed public housing limits but were not sufficient to afford rents commanded in the open market. The program was administered by the Department of Housing and Urban Development (HUD).

Section 236 projects generally involved new construction or substantial rehabilitation. Under the program, the federal government subsidized a project which had been financed by a private mortgagee at a market rate of interest by making direct monthly payments to the mortgagee equal to the cost of the mortgage insurance premium plus all interest in excess of 1 percent. In consideration of the benefits of the Section 236 Program, a limited distribution owner could not fully prepay the mortgage for a period of 20 years. (The mortgages are originally written for 40 years; after 20 years the mortgage may be prepaid, provided that HUD agrees.)

The 236 Program is no longer an active program. However, due to the 20-year restriction on repayment of the loan, there are 33 projects in San Francisco County that are still on HUD's inventory listing. Projects are removed from the inventory listing once the loan is repaid. Of the 33 projects listed for San Francisco, we were able to identify 26 of them with block and lot numbers.

The responsibility for valuing and maintaining Section 236 properties was previously assumed by a former chief appraiser. When the chief appraiser terminated his employment with the county in the early 1990's, the Section 236 properties were not reassigned to another staff member.

We were informed that the assessor's office did not have a listing of those properties that were subject to Section 236 regulations. In addition, conversations with various staff members, including the present chief appraiser, several principal appraisers, and at least two property appraisers, indicated that no one in the assessor's office knew what properties were designated as Section 236 projects.

Consequently, we went to the San Francisco office of the Department of Housing and Urban Development. The HUD staff members were extremely helpful and provided us with a complete inventory of properties that are currently in the Section 236 program.

As stated above, we were able to match 26 Section 236 properties with assessor parcel numbers. After preparing a list of the 26 properties, we asked the assessor's office to retrieve the appraisal records so that we could review them.

The file drawer labeled as "236" properties only had nine appraisal records which are listed on HUD's inventory. There are also seven appraisal files intermingled in the drawer that are not listed by HUD as 236 properties. These seven files do not contain enough documentation to indicate whether these properties were ever Section 236 properties.

The most recent value update of the above mentioned parcels is one property that was revalued in 1984. The property sold and was enrolled at its selling price with an allocation of the sale price to the land and improvements. A subsequent application for assessment appeal indicated that there is personal property involved with this parcel; however, no personal property has been assessed by the assessor's staff.

The assessed values on two other Section 236 properties were established by the county's assessment appeals board. One property was adjusted in 1977 and the other in 1984. The remaining six parcels appear to be valued at their various base year values plus appropriate inflation adjustments.

A review of the assessment roll indicates that 12 of the 26 parcels are excluded from taxation because they qualify for the welfare exemption. However, in four cases the county only applied the exemption to the land and improvements. The personal property located at each site is still being taxed. This suggests that there is a communication problem between the technical services section, which processes all exemptions, and the business property section, which enrolls the values of all personal property. Exemptions and personal property valuation are discussed more fully in separate sections of this survey report.

**SUGGESTION 4:** Identify and review all Section 236, National Housing Act properties in San Francisco County.

The first step needed to improve the assessor's program for valuing property financed under Section 236 of the federal National Housing Act is to identify those properties which are receiving subsidy payments. Once identified, the assessment roll should be coded in a manner that will allow easy identification in the future. We provided the chief appraiser with the list of 26 parcels that we were able to identify.

Next, we recommend that the assessor's staff review the assessments of all of the Section 236 parcels. As we mentioned above, there are cases where exempt personal property is being taxed and other cases where it appears that taxable personal property is escaping taxation.

In addition, the assessor's staff should review the current roll values of the Section 236 properties to insure that the current assessment is at the correct taxable value. Since Section 236 properties are restricted for property tax purposes, the taxable value is the lower of either the current restricted market value or the base year value factored for inflation.

Because the Section 236 properties, as a whole, have not been reviewed recently, we recommend that the assessor's staff review all of them in the near future. The staff should then review the properties periodically to insure that the taxable value is the lesser of the current restricted market value or the properly factored base year value.

## IV. BUSINESS PROPERTY ASSESSMENT

### A. INTRODUCTION

The San Francisco County Assessor's personal property division staff for the 1994-95 assessment year consisted of 12 auditor-appraisers, 8 senior auditor-appraisers, 3 principal auditor-appraisers, one chief auditor-appraiser, and 9 full-time support staff. This staff is responsible for annually processing more than 21,000 property statements and 25,000 direct billing accounts, and appraising approximately 1,800 boats.

The Assessment Standards Division's (ASD) sampling of the 1990-91 San Francisco County Assessor's local assessment roll included 99 secured and unsecured business property assessments. In 47 of these sampled items, the assessor's taxable values differed from the values determined by ASD staff. The local assessment roll values exceeded ASD's appraised values for 20 of the sampled items, while ASD's appraised values were higher in 27 cases. Statistically expanded to represent the total assessment roll, these sample items indicate 7,700 business accounts were overvalued by approximately \$80.5 million, while over 24,000 business accounts were undervalued by approximately \$337.5 million.

Our current survey reviewed office procedures and assessment practices of the San Francisco County Assessor's Office personal property division. We found the personal property division staff to be hard-working, competent, and professional.

Since the last ASD survey of the San Francisco County Assessor's Office in 1990, several improvements have been implemented in the personal property division. Three years ago the personal property division had only two personal computers, now 12 personal computers are available to assist staff in statement processing, audit work, and production statistics. Staff has updated the procedures manual to reflect current procedures and appraisal practices. The personal property division participates in taxpayer assistance programs by dispensing information and pamphlets at local Small Business Fairs. Staff is currently evaluating new computer systems and technological options to replace an antiquated unsecured property tax computer system which is a major limiting factor in staff's attempt to upgrade the personal property assessment program.

ASD acknowledges these improvements made to the personal property division since the time of the last survey in 1990. However, our current review found several important problem areas impacting the assessment and auditing function. Some of these problems were noted in prior ASD surveys in 1990 and 1983, and are repeated again to emphasize their importance in an effective assessment program.

## B. AUDIT PROGRAM

The verification of data submitted on the annual property statement is accomplished through the audit program. An audit is a verification process that may be either simple or quite complex. Although the depth of individual audits may vary, certain steps must be followed in every audit to ascertain the validity of reported figures, including what was done during the audit.

### 1. Mandatory Audit Program

Section 469 of the Revenue and Taxation Code requires an audit of the books and records of businesses at least once each four years when locally assessable trade fixtures and tangible business personal property have a full value of \$300,000 or more for four consecutive years.

The prior ASD survey of the San Francisco County Assessor's Office, published in 1990, listed six recommendations concerning the status, monitoring, and audit techniques of the mandatory audit program. Our current survey included a review of these six areas plus an examination of audit selection criteria, monitoring reports, audit quality, Revenue and Taxation Code compliance, and audit review procedures.

For the 1994-95 roll, approximately 2,000 business property accounts met the mandatory audit criteria and must be audited every four years. The personal property division keeps track of these accounts that meet the mandatory audit criteria by using a computer generated "List of Accounts for Primary Audit." This report lists accounts by business name, the year of the last audit, the year the next audit is due, the performing auditor-appraiser, and a four-year history of the personal property and fixture value assessed to the account.

A major improvement for tracking audits, the "Audit Tracking Report," was developed for use on the personal property division's personal computer LAN (local area network) system for the 1994-95 audit year. This comprehensive audit log keeps track of audits through the audit cycle, from the initial assignment through the final disposition of the audit results. This information includes DBA (business name), account number, assignment date, completion date, status, type of audit, and performing auditor. We commend the assessor and her staff for developing and implementing this audit log, as it will improve monitoring and evaluation of the audit program.

RECOMMENDATION 36: Bring the mandatory audit program up to current status.

The prior ASD survey of the San Francisco County Assessor's Office in 1990 noted a problem with the backlog of mandatory audits in the personal property division and recommended the mandatory audit program be brought to current status. Our current review found the personal property division still has a serious problem with the status of the mandatory audit program.

The "List of Accounts for Primary Audit" mentioned above listed 590 business accounts due for audit in the 1994-95 audit year. Many of these had been due for audit in prior years but were uncompleted and carried forward to the 1994-95 audit year. Our review of the audit production for the 1994-95 audit year showed the staff completed 428 of these 590 mandatory audits, or 76 percent, as of June 30, 1995. Of the remaining 162 business accounts due for audit but not completed as of the June 30th date, the staff had obtained only 62 waivers of the statute of limitations, or 38 percent, for the audits that were not timely completed.

Several factors are contributing to the serious audit backlog, including, but not limited to:

- (1) Reduction in auditor-appraisal staff over the last five years,
- (2) Low audit production per auditor-appraiser.
- (3) Non audit-related work assignments of the auditor-appraisal staff, and
- (4) Cumbersome business property statement filing system.

In the 1991-92 budget year, the personal property division was staffed by 31 auditor-appraisers. By the 1994-95 budget year the auditor-appraiser positions had been reduced to 21, a loss of 10 positions. Approximately 17 of these auditor-appraiser positions in 1994-95 were actively involved in the audit process. With the mandatory audit workload of approximately 550 audits per year, the average number of mandatory audits per auditor-appraiser required to complete the audit workload would be approximately 32 per year, or four audits per month (assuming auditing activities are done over the existing eight-month audit period). Actual audit production for the 1994-95 and 1993-94 budget years showed an average production of 25 mandatory audits per auditor-appraiser per year, or approximately 3-4 audits per month (assuming the same eight-month audit period).

At the beginning of the 1994-95 budget year, the personal property division began monitoring the time staff spent on production and non-production assignments on a weekly basis. Each auditor-appraiser was required to complete a "Weekly Production Report" on which the auditor-appraiser coded his/her work activities by general work categories. The auditor-appraiser was not required to track hours spent on individual audits but rather to show hours spent under the general code of "Mandatory Audits," "Nonmandatory Audits," "Contract audit review and write up," etc. At the time of our fieldwork, we requested a summary report showing 1994-95 production totals for each work category, but unfortunately, this summary report was still in the developmental stage and summary totals were unavailable for our review. Once this summary information is available, administration should be able to determine the amount of time the auditor-appraisers are actually involved in audit related activities versus other activities such as property statement processing, appeals, penal assessments, field books, etc.

In the San Francisco County Assessor's Office personal property division, the auditor-appraisers are involved in non-technical work activities that could be streamlined or

delegated to the assessment support staff. Processing of routine business property statements and field book updating are two examples of auditor-appraiser current work assignments that involve considerable auditor-appraiser time but could be handled by the support staff, allowing the auditor-appraisers more time to concentrate on the audit function. Also, reorganizing the filing system by making individual account folders would consolidate taxpayer assessment information in one location, thereby facilitating information retrieval for audit preparation and completion. These suggestions are discussed in more detail later in this report.

We strongly recommend the assessor and her staff establish a priority to the mandatory audit program. Restructuring workload assignments and establishing audit production standards will emphasize the importance of the audit program and its revenue-generating benefit to the county.

a. Statute of Limitations

Section 532 of the Revenue and Taxation Code provides that an escape assessment found during an audit must be made within four years after July 1 of the assessment year the property escaped assessment or was underassessed. If the assessor's staff cannot complete the mandatory audit within the prescribed time limit, the assessor may ask the taxpayer to grant an extension of time in order to avoid possible loss of revenue. This can be accomplished by having the taxpayer sign a waiver to extend the statute of limitations, as authorized by Section 532.1 of the Revenue and Taxation Code.

RECOMMENDATION 37: Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed timely.

The personal property division's audit staff obtained waivers of the statute of limitations from approximately 38 percent of the mandatory audits that were not completed by the auditor-appraisers by the end of the 1994-1995 audit year. In addition, no waivers were obtained for those audits that had been completed by the auditor-appraisers but were pending review by the principal auditor-appraisers on June 30, 1995.

Our review of completed audits showed many audits that had not been performed timely and had no signed waivers of the statute of limitation to allow for adjustments of values (both escapes and refunds) for audits due in prior years. By failing to obtain signed waivers, the assessor's staff has allowed some taxable property to permanently escape assessment because they could not enroll the escapes within the time specified in the statute of limitations.

Postponing the audit to the next audit cycle presents no financial loss to the county if waivers are obtained to prevent loss of revenue from possible escape assessments. The "Audit Tracking Report" and "List of Accounts for Primary Audit" should be used to identify and follow up on those accounts whose audits will extend past the statutory deadline. Sufficient time should be allowed to obtain waivers of the statute of limitations when audits cannot be performed timely. For those cases in which the taxpayers refuse to grant a waiver, the audit could be scheduled and completed within the statutory time limit for escape assessments.

b. Audit Documentation

SUGGESTION 5: Improve audit documentation and consistency among the audit staff by: (1) requiring a completed checklist for every mandatory audit; and (2) summarizing audit findings for simpler referral during property statement processing.

Over 60 audits completed during the years 1992 through 1995 were reviewed as part of this survey. The vast majority of the audits were of acceptable quality and well documented, with detailed and clear narratives. Although the general quality of the audits is acceptable, there are some improvements that, if made, will provide internal consistency among the audits in relationship to statutory requirements and office policies.

Require a Completed Checklist for Every Mandatory Audit

Audits verify the data submitted on the annual property statement. Whether simple or complex, audits generally follow certain steps to ascertain the validity of reported figures and other information. A checklist details the pertinent points covered during the audit. The checklist, along with the audit narrative, provide valuable information for further questions, audit review, and future audit preparation.

None of the audits we reviewed included an audit checklist, nor is a standardized audit checklist available to the audit staff. The use of a standardized audit checklist would help ensure complete and consistent audits among the auditor-appraiser staff. An example of an audit checklist is included in Appendix 2 of this report. We suggest the personal property division staff include an audit checklist as part of all formal audits to improve the consistency and thoroughness of the audits.

Summarize Audit Findings to Simplify Referral During Business Property Statement Processing

Taxpayer reporting errors on the business property statement are common problems found in any assessor's office. The verification of data submitted on the annual property statement is accomplished through the audit program. Often the audit will disclose classification, clerical, and assessment errors made in the taxpayer's reported costs or made by the assessor's staff during statement processing. Many times these changes will impact future taxpayer reporting and/or assessment, or both. During business property statement processing, auditor-appraisers often compare the audit results with the taxpayer's current property statement to ensure the audit findings are implemented on the current year's statement.

The San Francisco County Assessor's Office personal property division's procedures manual describes the components of the audit report and the recommended sequential arrangement of the component parts of the audit. Completed audits are normally filed in the taxpayer's account folder along with the business property statements. We found examples where the audit workpapers were loosely filed in the folder and had not been stapled or otherwise

bound into an "audit package." Many of these examples were complex audits with several supporting schedules and multiple exhibits. When the audits were "packaged" in the recommended sequence, the audit summary and narrative were easily available for review. However, when an audit was complex with numerous classification and assessment changes, it was often difficult to determine which of these changes would directly impact future cost reporting by the taxpayer and/or the processing of the property statement. Currently, this information is often "buried" in the audit and is time-consuming for the auditor-appraiser to track down.

To facilitate processing of the business property statements, the auditor-appraiser should summarize the audit findings on an audit referral sheet and attach it to the inside of the business account folder for easy reference. This summary should note the significant audit findings that pertain to the annual property statement processing. Such items as fixed machinery and equipment allocation, supplies, disposition of structural improvements, audited corrections to taxpayer reported costs, leased equipment, and other pertinent information could be summarized and quickly available for the auditor-appraiser processing the statement.

c. Audit Selection Criteria

Improve Reliability of Audit Scheduling Report

The San Francisco County Assessor's personal property division uses a computer generated report titled the "List of Accounts for Primary Audit" to make mandatory audit assignments. This annually prepared report has been the key selection control for the mandatory audit program for many years.

The 1990 ASD survey of the San Francisco County Assessor's Office noted a lack of reliability in the database generating this report, specifically in the audit year entered in the list. Our current review found improved accuracy for the audit year code in this list, although several errors of incorrect data entry were noted to the "Last Audit" and "Next Audit" fields.

An incorrect data entry into either one of these fields would result in the business account being listed for audit on other than a four-year audit cycle. An accurate database is essential for proper program planning and assignment scheduling. The audit staff should continue their efforts to ensure the data reliability of the data used to generate the "List of Accounts for Primary Audits."

Use Assessed Value Statistics According to Owner When Determining Mandatory Audit Status

The "List of Accounts for Primary Audit" is organized by the business name (DBA), rather than by the owner's name of the business. This list does not accumulate data from multiple accounts all owned by the same person but with different business names. Only those accounts qualifying on an individual basis for mandatory audit status are listed on this report. Consequently, a business owner with multiple businesses with dissimilar names, each below the \$300,000 limit, would not even be scheduled on the "List of Accounts for Primary Audit."

Section 469 of the Revenue and Taxation Code clearly states the mandatory audit criteria applies to ". . . trade fixtures and business tangible personal property owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business. . ." (emphasis added). Legal title to trade fixtures and business personal property resides in corporations or in the individual owners if a proprietorship or partnership, and not in the "doing business as" (DBA) entity name.

The 1990 ASD survey of the San Francisco County Assessor's Office recommended the assessor's staff accumulate assessed value statistics according to owner when determining the accounts requiring a mandatory audit. ASD staff recommended the personal property division annually request and review a computer report called "Account Value by Owner" which would provide this information. Our current review found the audit staff has not utilized this report in at least three years because of the limitations of the assessor's mainframe computer system's cumbersome and costly report-generating capability.

Currently, the staff manually reviews the alphabetical owner roll listing to locate owners with multiple business accounts but this review is not done every year. With over 40,000 business accounts in San Francisco County, the process is extremely time-consuming and labor intensive. Staff must manually research the value history and review the property statements for each account. This task becomes even more tedious given the personal property division's cumbersome filing system, discussed elsewhere in this report.

The personal property division's computer system is antiquated and based on 1960's technology, making the implementation of this recommendation difficult but not impossible. As previously discussed, the assessor and her staff were currently reviewing several options to install a new property tax assessment program. One of the criteria her staff is using to evaluate a new computer system for personal property is the system's ability to link value statistics for owners with multiple business locations. Until a new computer system is fully operational, however, the business division staff must still work within the confines of the current computer system, despite its limitations and antiquity.

We encourage the audit staff to annually determine whether multiple business accounts with the same owner qualify for mandatory audit status under the provisions of Section 469 of the Revenue and Taxation Code.

#### Include Only Business Personal Property and Fixtures Full Value When Determining Mandatory Audits

The "List of Accounts for Primary Audit" lists a four-year value history for business accounts with a current year full value for fixtures and personal property of \$300,000 or more. An account need not have \$300,000 or more full value for each year of a four-year cycle to gain entry on this list, but merely \$300,000 or more in the current year. The \$300,000 or more full value shown on this list is the combined total for fixture and personal property value, rather

than the value for the individual classes of property. The fixture full value on this list actually includes two classes of property: structural improvements and trade fixtures.

Section 469 of the Revenue and Taxation Code identifies". . . locally assessable trade fixtures and business tangible personal property. . ." as the two types of taxable property used to qualify a taxpayer for mandatory audit status. Land, land improvements, possessory interests, and structural improvements are not included in the \$300,000 or more full value threshold for mandatory audit status.

In San Francisco County, when a business property statement is processed and the assessment is added to the unsecured assessment roll, any structural improvement value is "lumped" together with the trade fixture value and classed on the assessment roll as a fixture. The misclassification of structural improvements as fixtures has been the procedure in the personal property division for many years.

Since "The List of Accounts for Primary Audit" relates to the total assessed value for each account on the assessment roll, the list will show an overstated total assessed value to the extent that structural improvements have been misclassified as fixtures. Many businesses with total assessed values near the \$300,000 mandatory audit limit may have assessable structural improvements which have been misclassified as fixtures. Correctly classifying structural improvements may change the mandatory audit status of the account.

The personal property division staff should correctly classify structural improvements. The audit staff should adjust the full values shown on "The List of Accounts for Primary Audit" to delete any structural improvement value included in the total full value shown on this list prior to determining the mandatory audit status of the account.

#### Include Qualifying Welfare-Exempt Organizations in the Mandatory Audit Program

The "List of Primary Accounts for Audits" identifies welfare-exempt businesses such as hospitals and charitable organizations that have full values exceeding \$300,000. Most of these accounts have never been audited. The business property staff informed us that it was administratively expedient not to audit accounts that were eligible for exemption, although these property owners were still required to file business property statements every year.

The language of Section 469 does not give the assessor discretionary authority to audit only selected businesses that meet the mandatory audit \$300,000 full value criteria. All businesses that qualify under Section 469, even welfare-exempt organizations such as hospitals, are still required to report business property accurately and completely, subject to audit under the provisions of Section 441 and 469 of the Revenue and Taxation Code.

The welfare exemption is applicable to land, buildings, and personal property that are owned by a nonprofit organization and used exclusively for religious, hospital, scientific, or charitable purposes. In order to qualify for the exemption, both the owner and the property must

meet the requirements of subdivisions (1) through (7) of Section 214 (a) of the Revenue and Taxation Code.

The assessor has the primary responsibility for verifying that the property is used for the exempt purpose claimed on the application. An audit of a welfare exempt property should concentrate on the use of the property and whether there is unreported property, particularly property belonging to another. For more information on the basic requirements to qualify for the welfare exemption and points to address when auditing the property of a welfare-exempt organization, refer to Appendix 3 at the end of this report.

## 2. Nonmandatory Audit Program

RECOMMENDATION 38: Develop a formal nonmandatory audit program.

Property owners in San Francisco County who do not qualify under Revenue and Taxation Code Section 441 for a mandatory audit every four years have been virtually audit-free. In the 1994-95 audit year, only 26 nonmandatory audits were completed by the personal property division of the assessor's office. A prior ASD survey of the San Francisco County Assessor's Office in 1983 recommended the audit staff increase nonmandatory audit production. However, the personal property division still does not have a formal nonmandatory audit program. Only a few nonmandatory audits are performed each year, and these are prompted by either a taxpayer request for audit or an unusually glaring taxpayer reporting discrepancy. Although no legal requirement exists to audit small accounts, no auditing program is complete unless it includes a representative sampling from all sizes and types of accounts, including those that do not meet the mandatory limit.

A major objective of an audit program is to insure proper reporting on the annual business property statements. A major objective of an audit selection system is to audit those accounts which will produce value changes resulting in tax revenue changes equal to or greater than the cost of auditing. For example, in making a choice between two accounts to audit, the assessor's first choice should be the account where a value change is likely to occur. Those accounts showing little or no likelihood of value changes should be considered low priority accounts and audits of these accounts should be deferred.

Assessors' Handbook Section 503, Management of the Business Property Program, describes how to establish a formalized audit program for nonmandatory audits. It also suggests criteria for establishing priorities, such as auditing all taxpayers who consistently fail to file annual property statements.

Taxpayers underreporting costs on the annual business property statement is a significant problem in practically every assessor's office in California. Some of this underreporting would be reduced with a more intensive nonmandatory audit program. We recommend the personal property division establish an audit selection criteria for nonmandatory accounts and implement a formal nonmandatory audit program as staffing becomes available.

## C. BUSINESS PROPERTY STATEMENT PROCESSING

### 1. Program

Business property assessments are based upon data submitted by taxpayers on the annual property statements. It is axiomatic to say that the more accurate the data reported by taxpayers on the property statements, the more accurate the assessment roll will be.

For many years and prior to the present assessor's term of office, the processing of business property statements has been done using calculators. This is beginning to change as the assessor has embarked on a program to computerize her office. It is a slow process, due to limited budget and other circumstances beyond the assessor's control. With a limited number of computers at the disposal of the business personal property section, many of the property statements are still being processed manually, with each assessed value calculated by an auditor-appraiser. The present number of computers and the antiquated system used for this task are insufficient to handle the ever growing number of business accounts in San Francisco County. This problem is addressed in more detail in another segment of this survey.

RECOMMENDATION 39: Improve the processing of business property statements by : (1) screening business property statements for completeness; (2) adding the penalty required by Section 463 of the Revenue and Taxation Code to property statements that are not signed properly; and (3) using clerical personnel to process most business property statements.

### Screening Business Property Statements for Completeness

We found that many property statements were incorrect in one or more of the following aspects:

1. No signature
2. Unauthorized signatures
3. Change in Ownership and other questions not answered

These errors affect not only the current processing year but also prior years.

#### No Signature:

Section 441 of the Revenue and Taxation Code states in relevant part that "each person owning taxable personal property. . .having an aggregate cost of thirty thousand dollars (\$30,000) or more for the initial assessment year or an aggregate cost of one hundred thousand dollars (\$100,000) or more for any subsequent year shall file a signed property statement with the assessor." It further requires that "every person owning personal property which does not require

the filing of a property statement or real property shall upon the request of the assessor file a signed property statement." This is the same filing requirement stated in Property Tax Rule 172. Property Tax Rule 172(e) further provides that "a property statement or a mineral production report that is unsigned does not constitute a valid filing. The penalty imposed by section 463 of the Revenue and Taxation Code for failure to file shall be applicable to unsigned property statements." (Emphasis added.)

In our review, we found several business property statements and vessel property statements that were processed without the required signatures but no penalties were applied.

We recommend making a copy and then returning, for signature, those business and vessel property statements that are submitted without the required signature.

#### Unauthorized Signatures:

Property Tax Rule 172, with reference to the filing requirement of business property statements as provided in Section 441 of the Revenue and Taxation Code, requires: "when signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization of the agent or employee to sign the statement on behalf of the assessee shall be filed with the assessor. The assessor may at any time require a person who signs a property statement and who is required by this section to have written authorization to provide proof of his authorization."

Paragraph (b) of the same rule provides "In the case of a corporate assessee, the property statement and mineral production report shall be signed by an officer or by an employee or agent whom the board of directors has designated in writing (other than those excepted in paragraph (a) above) by name or title, to sign such statements on behalf of the corporation. . . . A record of the written authorization on the designation required by this subsection shall be retained by the assessee for a period of six years from the date of its execution."

Subsection (d) of Property Tax Rule 172 provides "Neither the assessor nor the board shall knowingly accept any signed property statement or mineral production report that is not executed in accordance with the requirements of this section."

In our review of submitted business property statements we found several (7 of 150 reviewed) statements signed by the assessee's agent or other unauthorized preparer without the required written authorization.

By requiring such written authorization to be filed, an assessor will increase the accountability of whoever signs and files the annual property statement. The corporate assessee will realize that the filing agent or employee is given the responsibility by the corporation with the important duty of accurately and fully reporting all assessable business property to the assessor. The written authorization calls attention to the fact that the corporate assessee is liable for any consequences of the employee's or agent's errors in reporting.

We recommend that the assessor require and keep on file a letter of authorization for those who sign the business property statements other than the assessee, or a member of the bar, a certified public accountant, a public accountant, an agent, or a duly appointed fiduciary as required by Property Tax Rule 172.

#### Change in Ownership and Other Questions Not Answered:

We found that the change in ownership, change in control, and other "yes" or "no" questions on property statements were frequently left unanswered by property owners. A lack of response may seem minor, but these questions have the purpose of alerting the assessor to a possible change in ownership which might require a reappraisal of the transferee's real property. When a taxpayer does not respond to these questions, erroneous assessments can result.

We recommend that the assessor require answers to change in ownership, change in control, and other "yes" or "no" questions on the property statement.

#### Adding Required Penalty

As we noted earlier, we found numerous business and vessel property statements that were unsigned or that were signed by an agent or other preparer for whom the assessor had no written authorization. These property statements were processed by the assessor's staff with no attempt to obtain proper signatures or authorizations of the preparers' signatures. Finally, penalties were added to the assessments.

Property Tax Rule 172(e) provides: "A property statement or a mineral production report that is unsigned does not constitute a valid filing. The penalty imposed by Section 463 of the Revenue and Taxation Code for failure to file shall be applicable to unsigned property statements."

In the case of a property statement that contains obvious errors or omissions, the assessor may use judgment in determining whether the Section 463 penalty should be applied. In the case of an unsigned or improperly signed property statement, the assessor has no choice but to apply the penalty. Accordingly, we recommend that the assessor apply the Section 463 penalty to unsigned and improperly signed property statements.

## 2. Direct Billing

Several California assessors use an assessment procedure called "direct billing or direct assessment." It is a method where certain lower-valued business accounts do not require annual business property statements. Instead, an assessment is sent directly to the business. This billing system is suitable to small established businesses whose equipment and supplies remain fairly constant from one year to another. Examples of these types of businesses are barber shops, beauty salons, small cafes and restaurants, laundrettes, and professional firms with small equipment holdings. This procedure streamlines the annual appraisal process. It reduces the

amount of paperwork for small businesses, reduces the number of property statements that must be processed by the assessor's staff, and makes more time available for the audit program.

RECOMMENDATION 40: Improve the direct billing program by: (1) establishing a two-year history prior to enrolling an account into the program; (2) excluding hotels, motels, banks and financial institutions, and multi-location accounts from the direct billing program; and (3) sending business property statements to direct billing accounts every fourth year.

#### Establish a Two-Year History

Our recommendation was necessitated by the San Francisco County Assessor's staff's practice of placing an account onto direct billing in its initial year of operation. We also noted that once an account is placed under the direct billing program, it could stay there for its entire business life without ever receiving a subsequent business property statement.

One of the important criteria for a good direct billing program is to make sure that only small and established businesses are placed under the system. This means that an entity should be in business for at least two years with the same owners and have correctly filed property statements during those two years.

#### Exclude Hotels, Motels, Banks and Financial Institutions, and Multi-Location Accounts

Some hotels, motels, and financial institutions fall under the category of small businesses. However, they should be excluded from the direct billing program because of the nature of their operation and the constant turnover in ownership. Similarly, multi-location accounts should not be included in the direct billing program because of the possibility of reaching the threshold for the mandatory audit amount. There is also the likelihood of adding, closing, or expanding existing branches. Presently, these types of accounts are included in the assessor's direct billing program. This practice should be discontinued.

#### Send Statements Every Fourth Year

This program can only be continually productive and effective if it is periodically reviewed and updated. The method of reviewing a direct billing program used by many assessors is to send business property statements to all direct billed accounts on a four-year cycle. The property statement would be used to assess the account for that year and the subsequent years until there is a change noted on the questionnaire or when another property statement is mailed to the taxpayer. This step is in addition to the annual revaluation of the direct billing system. The revaluation considers any accounts that should be added or removed from the direct billing program.

We recommend improving the direct billing program by carefully scrutinizing an account before it is placed on the direct billing account. We urge the assessor to establish the

recommended criteria as a requirement before an account could be enrolled in the direct billing program. For its needed follow-up and review, we recommend that business property statements be automatically sent to direct billed accounts every four years.

#### 4. Discovery of Property

Timely discovery of taxable property is one of the basic functions of any county assessor throughout the state. It is also a continuing predicament, a never-ending process that is accentuated by the rapid turnover of many small businesses, changes of ownership, situs changes, etc. It is a formidable task to maintain accurate, up-to-date listings of assessable business properties. It is therefore imperative that an efficient and effective discovery program be in place.

Some of the methods and areas of discovery are field canvass, list of tenants and subtenants from the landlord, telephone directory, business license, newspapers, referrals from other counties, and sales tax permit cards.

RECOMMENDATION 41: Improve the business property discovery program by supplementing the field survey with other methods of discovery.

Field survey has always been the primary source of discovery used by the San Francisco County Assessor's Office. The survey is conducted from January to February of each year. Downtown San Francisco is canvassed each year, while about one-fourth of the remaining areas are done on a rotational basis. All auditor-appraisers except the principals and the marine appraiser participate in this arduous task.

A field canvass (also called survey, canvassing, field work, field check, field survey, field walk, business check), though widely used and effective, has its limits in discovering taxable entities such as subtenants, concessionaires, and subsidiary businesses. To counter this deficiency, the assessor's staff should not rely solely on a field canvass as the only way of discovering businesses. For example, an updated listing of tenants and subtenants from the landlord will be more helpful and accurate than the directory listing posted at the lobby of an office building, since the latter may not have been updated at the time of the canvass.

Another valuable tool would be a listing of businesses by the business taxes division of the San Francisco County Tax Collector's Office. Every business in the City of San Francisco is required to register and pay a registration fee with the tax collector's office within 15 days of business operation. Since this is an ordinance and carries a penalty for noncompliance, the records are reasonably complete and accurate. This listing is an invaluable source of information that the assessor should obtain from the tax collector's office.

Another useful source is reverse telephone directories that list telephone subscribers by street address and are updated quarterly. Businesses are easily distinguishable from residential properties because they are published in bold letters. The directory is published in March, June, September, and December of each year. Each publication has a listing of last

quarter's list of subscribers plus the new ones for each quarter which are recognizable because of the "+" sign before the name of the business.

It is also worthwhile to reconsider the use of sales tax permit cards (the county stopped using them in 1992) provided free of charge by the State Board of Equalization. These cards are very useful and informative. Some of the information given is name, DBA, address, and type of business. San Francisco is a center for sellers and retailers. It has a large tax base for sales and use tax permits; hence, the use of these cards should not be completely ignored.

An efficient and effective discovery program is one that produce reliable results at acceptable cost. This can be achieved by avoiding the expensive use of professional-level personnel for clerical duties. The clerical staff can review these listings (tax collector's office, reverse directories, sales tax permit cards) to update the alphabetical index and the field books. To reduce canvassing cost, the assessor should consider hiring temporary staff to do the field work under the supervision of the senior auditor-appraisers. An auditor-appraiser's time is most productively used when he or she is actively auditing or appraising property.

A large majority of businesses in San Francisco are concentrated in the downtown area with the rest spread out in the outlying areas. As a world renowned city, a tourist haven, and a financial center, San Francisco has quite a number of taxpayers engaged in the businesses of hotels, restaurants, retailers, legal, and financial services. All of these sectors need and have tangible personal property which is taxable unless specifically exempted by law (Section 201 of the California Revenue and Taxation Code).

The San Francisco County assessor's 1995-96 tax roll reflects a total of 38,436 business accounts excluding boats and exempt accounts. In comparison, the San Francisco Tax Collector's business tax division listed a total of 68,304 accounts as of May, 1995. Staff at the tax collector's office disclosed to us that their number of listed accounts is probably lower than that of the actual number, which is estimated at more than 70,000. Although the 70,000 figure is a gross total and no doubt includes some accounts that are exempt or have no assessable property, nonetheless, the discrepancy between the assessor's number of accounts and the tax collector's number of accounts is sufficiently high to indicate a probable problem.

We sampled a portion of telephone listings of businesses by street index and cross-checked them against the assessor's list of businesses. We also sampled a portion of the San Francisco County Recorder's fictitious business name detailed report for the week between February 27 to March 3, 1995. Of approximately 2,500 businesses sampled, we found 100 businesses listed as doing business in San Francisco that were not in the assessor's list of businesses. Seventy-six of the businesses contacted confirmed their existence while 24 were no longer in business and/or moved outside the jurisdiction of San Francisco County.

We recommend that a more aggressive discovery program be implemented by the assessor to maintain a more accurate, up-to-date listing of assessable businesses.

## D. VALUATION

### 1. Exemption of Low-Value Properties

Section 155.20 of the Revenue and Taxation Code permits a county board of supervisors to exempt from property tax all real and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine at what level of exemption the costs of processing assessments and collecting taxes exceeds the proceeds and then establish the exemption level uniformly for all classes of property. The full value to be exempted may not exceed \$2,000. (Due to recent legislation, the limit is \$5,000 as of January 1, 1996.)

RECOMMENDATION 42: Request the county board of supervisors to adopt an ordinance exempting low-valued property.

The present assessor, as well as past administrations before her, have not approached the county board of supervisors regarding an ordinance exempting low-valued property. A review of the San Francisco County assessment roll shows numerous assessments with a full cash value as low as \$250.

The assessor should request an ordinance exempting low-valued property. It would be especially helpful for handling the lower-valued possessory interests, small business accounts, and other low-valued assessments. The purpose and benefits of the low-valued property exemption law is not being realized at the San Francisco County Assessor's Office.

### 2. Apartment Personalty

Landlord-owned personal property in apartment complexes is assessable and reportable annually on Form 571-R, "Apartment House Property Statement." Such personal property includes, but is not limited to, freestanding refrigerators, freestanding electrical stoves, gym equipment, landscape maintenance equipment, office equipment, and common area furniture.

RECOMMENDATION 43: Develop and implement written standardized procedures for the discovery and assessment of landlord-owned apartment personal property.

The assessment of landlord-owned apartment personal property in San Francisco County is hindered by a variety of problems. Many apartment owners do not receive business property statements and the property is never enrolled, or the assessed values are rolled over year after year without change. The result is that apartment personalty either escapes assessment, is double assessed (because the real property appraisers often include the personal property value in the real property assessment), or is incorrectly assessed because the same value is continued year after year. ASD's sample of the 1990-91 San Francisco County Assessor's local assessment roll

included an apartment building with over \$300,000 of personal property that was not being assessed either as personal property or (incorrectly) as real property. The account showed no evidence of a business property statement ever having been sent to the owner.

One reason for apartment personalty not being discovered is that apartment buildings are not included in the annual field canvass of businesses performed by the county auditor-appraisers. The field canvass is the chief method of discovering business property accounts. The annual business property field canvas should include at least all medium-and-large sized apartment buildings. Without this method of discovery, the business property division is dependent on referrals from the real property appraisers. However, these are very inconsistent, and the real property appraisers do not follow any uniform guidelines when making these referrals.

The assessor's real property division should be the most reliable source of information about new apartment buildings. The real property appraisers should be able to provide the business property division with the owner's name, mailing address, location, and name of any new apartment building during the course of their appraisal of the new construction. To make this a reliable method of discovery, procedures need to be written and implemented to guarantee the reporting of all necessary information to the business property division when a new apartment building is built or an existing building is expanded.

The real property appraisers should also be a source of information when an apartment complex changes ownership. During the reappraisal following a change of ownership, the real property appraisers should determine whether any personal property was included in the sale or transfer. If so, value must be allocated to the personal property and the information forwarded to the business property division. Our review of apartment building transfers revealed instances where the total price was enrolled as the real property value even though it included personal property, and in one instance the personal property was already being assessed as personal property, resulting in a double assessment. In this case, the buyer did allocate a portion of the purchase price to personal property, but this was ignored by the real property appraiser.

Proper classification of items and the segregation of the value of personal property from the total improvement value is essential. Personal property is not subject to the annual inflation factor or the supplemental assessments that apply to land and improvements. If personal property is included with the improvement value, both the value subject to the annual inflation factor and the supplemental assessment tax is overstated.

We recommend the assessor's staff classify and assess apartment personal property as personal property. We also recommend that the business property division mail out property statements to all apartment complex owners not on direct billing. A review of those apartments on direct billing should be done at least once every four years.

We urge the assessor and her staff to establish and implement procedures to ensure the discovery and correct assessment of apartment personalty.

### 3. Co-Op Housing Personality

The common area personal property owned by a co-op housing corporation is not assessable pursuant to Revenue and Taxation Code Section 224, which exempts the personal effects and household furnishings of individuals. A court decision, Lake Forest Community Association v. Orange County, 86 Cal. App. 3d 394 ruled that Section 224 includes household furnishings for common-use areas owned by a community association.

RECOMMENDATION 44: Exempt personal property owned by co-op housing corporations.

Our review of co-op housing accounts in San Francisco County revealed that several are being assessed for small amounts of personal property. Although no information was contained in the file regarding what the personal property assessment was based on, or when it began, our discussions with the assessor's staff indicated the assessments were probably established many years ago and have continued unchanged year after year on the direct billing program. Correct application of the direct billing program would have brought these accounts up for review once every four years and the exempt status of this personal property would hopefully have been recognized. The correct procedures for a direct billing program are discussed in depth elsewhere in the business property section of this report.

We recommend the business property staff review all co-op housing accounts to identify any personal property assessments which should be exempt, and then correct these accounts and initiate appropriate refunds.

### 4. Service Stations

In Property Tax Rule 463(c), fixtures are defined as follows:

"For purposes of this section, fixture is defined as an improvement whose use or purpose directly applies to or augments that process or function of a trade, industry, or profession."

Service station fixture improvements such as tanks, pumps, monitoring systems, and pipe lines directly augment the service station trade.

RECOMMENDATION 45: Reclassify certain service station improvements as fixtures.

In the San Francisco County Assessor's Office, underground tanks, pumps, monitoring systems, and fuel dispensers are currently assessed as land improvements. These items should properly be categorized as fixture improvements. Letters to Assessors Nos. 92/27 and 88/24 clarify the proper classification of certain service station improvements as fixtures within existing statutory law and property tax rules.

We recommend segregation and classification of service station property into the appropriate improvement or fixture categories, consistent with existing property tax rules.

## E. LEASED EQUIPMENT

One of the responsibilities of the personal property division is the discovery and assessment of taxable leased equipment. The annual business property statement requests taxpayers to report all leased equipment (taxable personal property in their possession but belonging to others). The name and address of the owner, the month and year of acquisition, the acquisition cost, and other relevant information is requested on the property statement. In the San Francisco County Assessor's Office, one auditor-appraiser and one clerical support staff have been assigned the responsibility of the assessment of leased equipment reported by lessees and lessors, and conditional sales contracts reported from financial institutions and other leasing companies.

Problems in reporting, tracking, and assessing leased equipment are common in most counties. Our review of the San Francisco County Assessor's Office personal property division's program for assessing leased equipment found several problems that reflect inadequate procedures for the discovery, mailing, processing, and review of leased equipment assessments.

RECOMMENDATION 46: Upgrade the assessment program for leased equipment.

### Leased Equipment Reported on the Business Property Statement

When leased equipment is reported by the lessee on the business property statement, the auditor-appraiser reviewing the statement writes "L/E," denoting leased equipment, on the face of the property statement. There is no check to determine whether the leasing company is an active account that would routinely receive a property statement. The leased equipment is not generally assessed to the lessee, although occasionally the auditor-appraiser will assess the leased equipment to the lessee directly from the lessee's property statement during the processing season. More typically, however, the leased equipment does not get assessed to the lessee at this time.

Once the assessment roll is completed in July, one auditor-appraiser is assigned the responsibility to review those property statements coded with the "L/E" and determine whether the leased equipment was reported by the leasing company. If the equipment had not been reported by the leasing company, the auditor-appraiser prepares an escape assessment to the lessee.

We found that several areas need improvement in the processing of lessee-reported leased equipment. We found several examples of property statements coded with the "L/E" that had not been reviewed for possible leased equipment assessment up to a year after the initial processing. Time and staff constraints limit the number of property statements reviewed each year. Considerable staff time is spent going through the files looking for those statements coded with "L/E," statement by statement. The prior year's review is stopped once the current year assessment roll is complete, regardless of the amount of remaining statements to be reviewed.

We recommend the personal property division staff develop an efficient procedure to track lessee-reported leased equipment back to the lessor's rendition of leased equipment to ensure all leased property is assessed. One method used by some assessor's offices is to have the clerical support staff copy the front page of those property statements that have reported leased equipment in Part III, Declaration of Property Belonging to Others. These copies are forwarded to the leasing section, which can then sort, review, and make the appropriate assessments. The statement copy is documented with the action taken and then refiled with the lessee's original statement for future reference.

We further recommend the leasing coordinator mail a business property statement to those leasing companies reported by the lessees that are not currently receiving one. It is highly possible that some of these leasing companies may have other leases that have gone unreported by the lessee. It is not uncommon for some lessees to not report leased equipment in Part III, and only by having the leasing company file a business property statement will the assessor's office be informed of all the leased equipment in the county.

#### Property Leased to State Assesseees

Public utilities and railroads in California are assessed by the State Board of Equalization's Valuation Division. Certain equipment that is used by these assesseees but is leased from others is to be locally valued and assessed by the county assessor. This property is reported by the assesseees to the Valuation Division on Form 600-B. Annually, the Valuation Division forwards every county assessor a copy of these Form 600-B's, listing equipment that is leased by public utilities but nonunitary in nature, and therefore locally assessable by the county. Our review found that the San Francisco County Assessor's staff do not process these Form 600-B's.

The purpose of the Form 600-B is the discovery of leased property that might not otherwise be enrolled. These forms provide for more complete annual reporting than is available solely through the locally filed business property statement.

We recommend that, the assessor's staff enroll escape assessments for equipment discovered on all unprocessed Form 600-B's and require annual, timely processing of these forms in the future.

#### Equipment Leased to Certain Nonprofit Organizations

Property is exempt from taxation under Section 3 of Article XIII of the California Constitution if the property qualifies for the public school, free public library, free museum, church, or nonprofit college property tax exemptions. If property is leased to other nonprofit entities that must qualify under the welfare exemption, the leased equipment qualifies for exemption only if the property transfers to the lessee at the end of the lease period for a nominal sum (i.e., a conditional sales contract) and is used for the exempt purposes of an organization

eligible for the welfare exemption. It is the combination of ownership and use that is required for the welfare exemption.

In the San Francisco County Assessor's Office, exemption staff routinely exempt all leased equipment reported by welfare exemption claimants without reference to the contractual relationship between the leasing parties. It is beyond doubt that some leased equipment is being improperly exempted under this policy.

We recommend that the exemption staff copy and forward to the leased equipment coordinator of the personal property division a description of all unowned property reported by certain nonprofit entities qualifying as welfare claimants with the name and address of the owner of the leased equipment. To ensure that all property is properly recognized, the leased equipment coordinator should return the listing with notations of action taken on each of the line items.

#### Leased Equipment Retained by Lessee

In the San Francisco County Assessor's Office, leased equipment reported by the lessor on the annual property statement is routinely assessed to the lessor unless the lessor is exempt (e.g., a financial corporation) or unless the property is leased subject to a conditional sales contract and the lessee has been assessed as the owner of the property. When the lease terminates, the lessor stops reporting the equipment. Our review indicated that the county does not assess the property once the lease is terminated unless the lessee begins reporting the formally leased equipment as part of his or her equipment. When the leased equipment contract terminates and the lessee obtains ownership of the equipment, often this equipment is not reported on the lessee's property statement and thus escapes assessment.

One method implemented by some counties to ensure that off-lease equipment is reported by the former lessee is to compare the current year's filing of the lessor with the prior year's. Any leases that have been terminated would not be listed in the current year's filing. The prior year's lease information could then be compared with the current year's filing by the lessee. If the lessee failed to report this formerly leased equipment, further investigation would determine the equipment status. The equipment may have either been returned to the lessor or kept by the lessee, depending on the contractual agreements and the needs of the lessee. If kept by the lessee, the new owner is required to report the equipment at the original cost and acquisition year.

We recommend procedures be implemented to more closely track the disposition of leased equipment when the lease has expired.

#### F. ASSESSMENT ROLL

##### 1. Roll Preparation Procedures

The San Francisco County Assessor's Office completes the assessment roll on or around July 1 of each year. At that time, the assessor signs an affidavit as prescribed in Section 616 in which she states that all property within the county has been assessed to the best of her judgment, information, and belief, and at its values as required by law. This initial assessment roll is referred to by the San Francisco Assessor's office staff as two separate rolls, "The Secured Roll" and "The Unsecured Roll."

RECOMMENDATION 47: Revise escape assessment procedures: (1) ensure that all business property statements are processed prior to the completion of the assessment roll; (2) cite Revenue and Taxation Code Section 531 when adding escape assessments from delayed property statement processing; and (3) provide taxpayers with notices of proposed escape assessments as required by Section 531.8 of the Revenue and Taxation Code.

When escape assessments are made to the "secured roll" staff cite the appropriate authority of Section 531 of the Revenue and Taxation Code. However, the "unsecured roll" is handled in a different manner. Escape assessments made during July, August, and September of the current year are added to the assessment roll without using the statutory authorization of Section 531 as required by Section 533. Assessments are merely added as a routine assessment without going through the normal roll change process. Changes to the "unsecured roll" made during this three-month period are collectively referred to as the "July Supplemental Roll," "August Supplemental Roll," and "September Supplemental Roll."

The assessor is required by Section 531.8 to notify the taxpayer of a proposed escape assessment at least 10 days before the escape assessment is levied. The San Francisco County Assessor's staff routinely comply with this statutory notification when making escape assessments to the unsecured and secured rolls. However, no notice is mailed to the affected taxpayer when escape assessments are made to the July, August and September Supplemental Rolls as described above. The assessor's staff do not regard these assessments as escapes, and therefore do not notify the taxpayer of the proposed escape assessment.

The unsecured assessment roll consists primarily of business personal property assessments, boats, and possessory interests. In San Francisco County, a significant number of escape assessments are made to the unsecured roll in July, August, and September which represent assessments made for taxable business personal property and fixtures as reported on business property statements. Most of these business property statements had been timely received by the personal property division, i.e., by the last Friday in May, but were not processed by the personal property division prior to the closing of the assessment roll. When these unsecured business assessments were finally processed, they were added to the roll as a routine assessment, without the statutory authority citation required by Section 533 or the notice required by Section 531.8.

The staff completed the 1995-96 assessment roll by June 30. The secured assessment roll included 1,137 business property assessments and the unsecured assessment roll

included 8,205 business property assessments. These 9,342 assessments represented approximately \$4 billion full cash value derived from business personal property and fixture assessments. An additional 1,945 unsecured assessments were added in July on the "July Supplemental Roll," and another 2,692 unsecured assessments were added on the "August Supplemental Roll." These 4,637 "supplemental" assessments were all based on timely filed property statements that were not processed by the end of June. Approximately 1,700 business property statements were filed after the statutory deadline of the last Friday in May. Only 450 of these late-filed statements had been processed by the time the "August Supplemental Roll" was finalized in mid August. All of these assessments were added to the roll after June 30 as regular assessments, and not as escape assessments under the provisions of Section 531. These "supplemental" assessments accounted for approximately \$472 million full cash value, or almost \$5.5 million in additional tax revenue for San Francisco County.

The number and full value amount of assessments added after the completion of the roll on June 30 represent a significant workload problem in the personal property division. Approximately 21,000 business property statements were mailed to taxpayers for the 1995-96 assessment year. Based on the statistics given to us by the office staff, only about 64 percent of these property statements had been processed or otherwise handled by the completion of the regular assessment roll. In other words, about one-third of the property statements mailed to taxpayers for the 1995-96 assessment year had not been processed or otherwise accounted for by June 30. Prior year's statistics were not available to determine whether this workload problem existed in prior years. However, interviews with office staff indicated the delay in processing timely filed property statements has been an ongoing problem for many years.

The completeness of the assessment roll on a timely basis impacts the county and city fiscal budgetary process. Anticipated property tax revenue is a major component of county/city budgeted revenue and impacts decisions on expenditures. Timely processing of all unsecured and secured business property assessments would result in a reasonably accurate estimate of property tax revenue when the assessment roll is completed and turned over to the county auditor/controller. Changes to the assessment roll are normal occurrences in all assessor's offices. However, when significant tax dollars are left off the assessment roll because of workload management problems, there is just cause for concern. Departments and agencies dependent on county funding have a difficult time making fiscal budgetary plans when their revenue source, i.e., property tax revenue, keeps changing drastically. For example, for the 1995-96 San Francisco County assessment roll, an additional \$5.5 million in unsecured taxes was added to anticipated property tax revenue from the "July Supplemental" and "August Supplemental" rolls.

The unsecured tax delinquent date is the last day of the month succeeding the month of enrollment. The majority of unsecured tax bills are mailed in July, after the assessment roll is completed. The delinquent date for these tax bills is August 31. For those unsecured tax bills mailed in August, the delinquent date is September 30. For those mailed in September, the delinquent date is October 31. This effectively gives those unsecured taxpayers whose property statements are delayed in processing an additional one to two months before their unsecured taxes become delinquent as compared to the normal time frame for unsecured taxpayers whose

unsecured taxes become delinquent on August 31. Consequently, cash inflow into the county treasury is delayed by this extra month or two delay, and subsequent interest on these cash payments is lost.

We strongly recommend the auditor-appraiser workload be restructured to provide timely processing of all property statements prior to the completion of the assessment roll as of July 1. For those assessments added to the unsecured roll after this date, the staff should cite the statutory authorization for escape assessments as required by Revenue and Taxation Code Section 533, and notify the affected taxpayer of the proposed escape assessment as required in Section 531.8.

## 2. Owner Identification

RECOMMENDATION 48: Insure that when known, the full name of the assessee appears on the roll.

Section 602 of the Revenue and Taxation Code requires an assessor to show the full name of the assessee on the assessment roll, if known. In the San Francisco County Assessor's Office we found assessments levied against a "doing business as" name rather than the actual name of the business owner, even though the correct name was readily available on the property statement.

The duty of paying taxes rests upon the person who holds the legal title. Legal liability in proprietorships and partnerships resides in the individual owners, not the "doing business as" entity name. Having the owner's name on the roll identifies the actual taxpayers and ensures the accuracy of the roll index as an important reference. The county tax collector and other agencies filing tax liens may use the roll to identify ownership and debtor status of property in the county.

We recommend the assessor instruct her staff to make sure the full legal name appearing on the property statement, not the "doing business as" name is the same name that is on the assessment roll.

## G. DOCUMENT CONTROL

### 1. Use of State-Prescribed Forms

The Revenue and Taxation Code requires that various forms used by the assessor contain specific information and wording approved by the Board of Equalization. The assessor has the option to change the size, color , etc., but not the specific wording required by law.

To assist the county assessor, the assessor may photocopy the Board-prescribed prototypes and make various rearrangements to the forms. Various sections of the Revenue and Taxation Code and Property Tax Rule have specific dates by which the assessor must submit the proposed forms for Board approval.

Annually, "checklists" of all the Board-prescribed forms are mailed to the assessor which must be returned prior to the statutory date for filing for Board approval. The "checklists" are mailed well in advance of the filing date.

The "checklists" list all of the forms that are Board-prescribed. The assessor simply has to mark whether they will not be using a certain form, will use a photocopy of the prototype, or will use a form that has been rearranged. If the assessor will use a form that is rearranged, the assessor must submit two copies of the proposed form for approval. Final prints of all Board-prescribed property statement and exemption forms used by the county, whether rearranged or not, are to be forwarded to ASD by February 10 of each year.

ASD annually sends three different "checklists" to county assessors that include the following:

- (1) Property Statement, Production Report, and In-Lieu Tax forms;
- (2) Exemption Claim forms; and
- (3) Assessment Roll, Alphabetical Index, Value Notification, and Notice of Supplemental Assessment forms.

RECOMMENDATION 49: Make timely submission for approval of Board-prescribed forms.

The San Francisco County Assessor's Office has not responded to ASD's request for the annual "checklists" listing all of the forms that are Board-prescribed. Our current review noted that for at least the past three years, ASD's original request and subsequent follow-up requests have been ignored by the assessor's staff.

Property Tax Rule 101 and Rule 171 describe the content, arrangement, and approval of property statements and exemption forms. Rule 252 describes the minimum content of the local roll and required approval of Board-prescribed roll forms. Deadlines for the submission of these forms for Board approval are also established in Rules 101, 171 and 252.

The San Francisco County Assessor's Office has a perennial problem with timely submission of the Board-prescribed forms to ASD for approval. We recommend the assessor submit, in a timely manner, requests for approval of Board-prescribed forms. We refer the assessor to Assessors' Handbook Section 222, Standard Form List, for a listing of all Board-prescribed forms.

## 2. Filing System

The current business property statement filing system used in San Francisco County has existed for well over a decade. It utilizes multi-drawer cabinets that separate the folders for the mandatory audit accounts from the nonmandatory business files. Each mandatory

audit account folder has the most current audit file and the property statement for the current year plus the prior years' statements of the past six years or more. They are also alphabetically arranged by DBA. On the other hand, all the nonmandatory accounts are arranged by assessment number and their assessment year.

To locate a file, it is important to establish first whether it is mandatory or not. If it is mandatory and the DBA is known, the search by alpha should be an easy task as long as the folder is in the filing cabinet. The process becomes complicated when the file is out, since there is no check-out system or other control to track files.

For the nonmandatory files, the first step is to know the assessment number, which is different from the account number and which varies from year to year. To look for the business property statements for four years, one must have the assessment number for each particular year and search in at least four different filing cabinets. Unlike the mandatory audit files, the nonmandatory files do not have folders; they are filed individually each year by assessment number marked on each business property statement. Any special documentation or correspondence is filed with the property statement received the previous year. Similar to the mandatory files, it also has no check-out system and all personnel have access to these files.

The cabinet filing system may work well for maintaining records of small volumes and where files are kept for short periods of time, but they are archaic and inefficient by modern assessment standards.

Every California county assessor's office requires a major record-keeping filing system. Not only do these offices have large record volumes, but they are also required by law to keep the records for seven years as provided by Section 834 of the Revenue and Taxation Code.

**SUGGESTION 6:** Convert the present closed-drawer cabinet system to a color-coded open-shelf filing system; file accounts by owner's name (not DBA) or by account number; implement a check-out system for business files.

Most county assessors' offices utilize a color-coded open-shelf filing system and file accounts by owner's name or by account number. An open-shelf, color-coded filing system requires much less time for locating and refiling folders. It has a much lower rate of misfiling, and misfiled records are easily spotted because of the mismatch in the color scheme of the system. This is also true with the accounts filed by owner's name or by account number. A central folder for each account helps consolidate multiple accounts with same owner--this is very important for tracking subsidiaries and other businesses of a mandatory audit account. This was suggested in our 1977-78 Assessment Practices Survey and it is still valid today. Having a file by owner's name or by account number should also be helpful in cross-referencing the lessors' schedules with the lessees' property statements.

A check-out system is a low-cost, low-maintenance solution requiring little staff time to implement, but it improves efficiency and control of business division records.

We therefore repeat our suggestion made in the 1983 assessment practices survey of San Francisco County for the assessor to convert the present drawer cabinet system to a color-coded open-shelf filing system and to implement a check-out for business files. Added to this, we suggest that the assessor change the method of filing by assessment number to owner's name or account number.

## H. VESSELS

The marine assessment section of the assessor's office has 1,814 vessels with a full cash value of \$30,804,622 assessed for the 1995-96 tax roll. Boats are grouped under the following categories: pleasure boats, documented boats with under \$400 assessed value, boats assessed at 4 percent of their value, soldiers' and sailors' exempt boats, and other exempt boats. The primary sources of discovery are Department of Motor Vehicles (DMV) reports, marina lists, and referrals from other counties.

RECOMMENDATION 50: Upgrade boat appraisal procedures by: (1) updating the marine division procedure manual; (2) obtaining computer access to DMV's vessel database; (3) requiring that an annual Vessel Property Statement be sent to boat owners with boats costing \$100,000 or more; (4) screening more closely the signatures on Vessel Property Statements; and (5) identifying and assigning duties in the marine division that can be performed by support staff.

### Update the Marine Division Procedures Manual

During our review of the San Francisco County Assessor's procedures and policies manual, we noted that the marine division procedure manual's latest revision is dated March 1, 1983. Since 1983, there have been significant changes in property tax laws affecting the assessment of boats. Revisions made since 1983 affect the various forms used by the marine division. The assessor's office should be aware of these changes and their effects on office practices. Although the Assessment Standards Division (ASD) has informed county assessors of changes in the tax laws through letters to assessors, an updated procedures manual is necessary to relate the effects of statutory revisions to the assessor's practices. We recommend the assessor update the marine division procedures manual.

### Obtain Computer Access to DMV's Vessel Database

Owners of pleasure boats are required to register their boats with the Department of Motor Vehicles (DMV). This state agency maintains a computer information file with each owner's name, address, boat type and class, and other pertinent information. When a boat owner sells or moves the boat to a new situs, DMV is notified and updates this computer file. DMV sends periodic reports to the county assessor's office that list all boats registered in that particular county.

To facilitate tracking of boat owners and their boat's situs, DMV permits assessor's offices to access its computer system to obtain current information. Having this access to DMV's system saves considerable staff time in determining the location and ownership of pleasure boats.

At the time of our survey, the tax collector's office but not the assessor's office had direct access to the DMV information system. Without this access, there are considerable delays at the assessor's marine section in determining the correct situs and ownership information on pleasure boats. With the tax collector's office already accessed, the only step necessary to be done is for the assessor to seek permission from the Department of Motor Vehicles for access to this valuable information.

We recommend that the assessor obtain computer access to the DMV boat information system.

#### Require an Annual Vessel Property Statement be Sent to Owners With Boats Costing \$100,000 or More

The marine assessment section, currently staffed by one auditor-appraiser (but no clerk), sends a vessel property statement to the boat owners of those documented vessels applying for the 4 percent assessment provided by Section 227 of the Revenue and Taxation Code. For all the other boats, the marine appraiser sends a postcard asking for information regarding boat owner, description of the boat, and situs.

Section 441 of the Revenue and Taxation Code states, "Each person owning taxable personal property, having an aggregate cost of thirty thousand dollars (\$30,000) or more for the initial assessment year or an aggregate cost of one hundred thousand dollars (\$100,000) or more for any subsequent year shall file a signed property statement with the assessor."

We recommend that each year the marine assessment section send a vessel property statement not only to those boat owners applying for the 4 percent assessment, but all the boat owners whose boats cost \$100,000 or more. This will not only be in compliance with the statutory requirement of sending a property statement, but also will be helpful in arriving at more accurate assessments by insuring the assessor's office is current on the boat's conditions.

#### Identify and Assign Duties in the Marine Assessment Section to be Performed by Support Staff

Currently, the marine appraiser performs all valuation and clerical tasks in assessing vessels. Such tasks as obtaining and refiling the vessel property statement files, making copies, answering boat owner's inquiries, making corrections and changes, and other clerical tasks should be performed by support staff.

In another segment of this survey, we indicated the economic benefits of assigning clerical tasks in processing business property statements to support personnel. This is also true in

the case of the marine assessment section. An additional economic benefit is that the marine appraiser can perform other assigned duties without having to charge overtime hours.

Until about 1992 the marine assessment section had an assigned clerk working with the marine appraiser. However, she was reassigned to work for the personal property division, leaving the marine assessment section with one position - the marine appraiser.

We recommend the assessor identify and assign those duties in the marine section to be performed by the support staff.

RECOMMENDATION 51: Revise documented vessel procedures by: (1) requiring a current United States' Coast Guard Certificate of Inspection; and (2) implementing the 80 percent assessment reduction for late-filed exemption claims.

#### Require a Current United States Coast Guard Certificate of Inspection

Section 130 of the Revenue and Taxation Code defines "documented vessel" as "any vessel which is required to have and does have a valid marine document issued by the Bureau of Customs of the United States or any federal agency successor thereto, except documented yachts of the United States, or is registered with, or licensed by, the Department of Motor Vehicles."

In the Board's Letter to Assessors No. 81/162, dated December 18, 1981, the two basic requirements regarding the valuation of documented vessel as required by Section 227 were detailed. These requirements are (1) the vessel must hold a current Certificate of Inspection by the United States Coast Guard, and (2) the vessel must have a duly signed and filed Affidavit for Four Percent Assessment of Certain Vessels.

In our review of boat assessment records, we discovered numerous documented boats assessed at 4 percent of their full cash value without the current certificate of inspection as required by Section 227 of the Revenue and Taxation Code. Some of these boat assessments go back as far as five years without the necessary certificate.

We recommend the assessor require her marine assessment staff to demand the current Certificate of Inspection by the United States Coast Guard as a condition of approving a preferential assessment of 4 percent on these documented boats.

#### Implement the 80 Percent Assessment Reduction for Late Filed Exemption Claims

Vessels used in ocean fishing, research, and sportfishing may qualify for a 96 percent exemption of market value (Section 227, Revenue and Taxation Code). An affidavit of eligibility must be filed by April 1 to qualify for the 96 percent exemption. If the affidavit is filed between April 2 and August 1, the assessment is to be reduced by 80 percent of the reduction that would have been allowed had the affidavit been timely filed by April 1.

The assessor's marine assessment section assessed 133 documented vessels on the 1995-96 tax roll; 84 received the 96 percent exemption.

In San Francisco County, when the affidavit required for the exemption is filed after the deadline of April 1, the exemption is either granted at 100 percent of the deduction or (incorrectly) denied and the boat owner does not receive any reduction in the assessment of his or her vessel. We also noted two instances where the boat owners submitted incomplete and unsigned affidavits for 4 percent assessment and were granted the exemption. This long standing practice is contrary to Section 275.5 of the Revenue and Taxation Code.

Section 275.5 states: "If a person claiming classification of a vessel as a documented vessel eligible for assessment under Section 227 fails to file an affidavit required pursuant to Section 254 by 5:00 p.m. on April 1 of the calendar year in which the fiscal year begins, but files such affidavit on or before the following August 1, the assessment shall be reduced in a sum equal to 80 percent of the reduction that would have been allowed had the affidavit been timely filed."

We strongly recommend the assessor discontinue the practice of granting the 4 percent assessment without the timely filed and signed affidavit. We also recommend the assessor instruct her marine appraiser to properly implement the provision of Section 275.5 in granting or denying 80 percent of the 96 percent exemption.

RECOMMENDATION 52: Thoroughly examine claims for relief under the Soldiers' and Sailors' Civil Relief Act.

In Letter to Assessors number 91/21 dated March 21, 1991, the Board emphasized that the Soldiers' and Sailors' Relief Act is not an exemption from personal property taxes. Instead, it establishes tax situs of the property and thus establishes an exception to the general rule that tangible property has its tax situs at the place it is located. The taxing agency with jurisdiction at the serviceman's domicile is either California or another state in the United States. Servicemen who are residents of foreign countries are subject to the same situs and property tax regulations as non-servicemen.

The marine assessment section of the San Francisco County Assessor's Office has on its record 60 accounts classified as soldiers and sailors exempt accounts. We requested records for these accounts, but we were told that the marine assessment section does not have them and that the list of accounts was derived from prior years and forwarded and recorded year after year without verification.

We recommend the assessor instruct her marine appraiser to conduct a thorough verification of these accounts. If they do exist, the assessor's office should have a signed declaration for each serviceman who declares situs of his or her personal property to be located elsewhere. If these soldiers and/or sailors are no longer residents of this county, these accounts should be deleted from their records. This will result in having a more accurate assessment roll.



EXAMPLE  
STANDARDS AND QUALITY CONTROL UNIT  
FUNCTIONAL DESCRIPTION

The assessment standards section is responsible for the following functions:

(1) Quality of Appraisals

The section should annually audit a representative sampling of both real and business property appraisals to determine the quality of the appraisals performed by the valuation staff.

(2) Internal Audits

The section should perform internal audits, on a scheduled basis and as directed by the assessor, to determine adherence by divisions, units, and sections to departmental policies and operating procedures. This should include an analysis of work systems to determine the efficiency and effectiveness of the systems.

Workload information and units worked per employee should be compiled and work standards established. Changes in methods and procedures should be recommended where needed.

(3) Training

Disseminate county training information to the entire assessor's staff. Prepare an annual training program for the technical and clerical staff. Maintain all training records.

(4) Manuals

Revise operations manual as required. Assist in the preparation and distribution of administrative directives.

(5) Form Control

Review and approve requests for new forms and modification of existing forms. Prepare, edit, and approve final proof copies of new revised forms. Supervise preparation of form control cards, assignment of form numbers, and maintenance of form folders.

(6) Time-Accounting/Management-Information System

Developing and installing an efficient time-accounting system is considered by many to be essentially a one-time effort. Experience has shown that it must be continuously monitored to determine if it is meeting current needs. Changes in laws and procedures may require time-accounting system changes.

(7) Electronic Data Processing Coordination

Act as liaison between the data processing center and the assessor's office, aid in the development of new systems, monitor efficiency of present systems and coordinate changes, aid in the resolution of daily computer program problems, and control the design of computer input forms.

(8) Questionable Transfer Transactions

Although most transfer deeds can be processed by the technical service section, there are occasionally some which require extensive research to determine whether or not they constitute an assessable transaction. Such deeds may require legal opinions. The Standard and Quality Control Unit should be assigned responsibility for the research and resolution of these problem deeds.

(9) Legislative Analysis

Analyze and interpret new and pending legislation affecting the assessor's functions. Seek legal guidance from State Board of Equalization and county legal staffs when required. Report changes and recommend action and methods to effect implementation. Monitor implementation to assure that legislative mandates are being met.

**AUDIT CHECKLIST  
AJAX COUNTY ASSESSOR'S OFFICE  
AUDIT INTERVIEW AND CHECKLIST**

Name \_\_\_\_\_ Parcel No. \_\_\_\_\_

Situs Address \_\_\_\_\_

Auditor \_\_\_\_\_ Audit Date \_\_\_\_\_ Class# \_\_\_\_\_

Audit Contact:

Name \_\_\_\_\_ Title \_\_\_\_\_ Phone \_\_\_\_\_

Location of Records \_\_\_\_\_

**RECORDS EXAMINED:**

- |  |   |
|--|---|
| <input type="checkbox"/> Chart of Accounts             | <input type="checkbox"/> General Ledger         |
| <input type="checkbox"/> Location Listing/Coding Chart | <input type="checkbox"/> Property Ledger        |
| <input type="checkbox"/> Federal/State Tax Returns     | <input type="checkbox"/> Financial Statements   |
| Change in ownership:                                   | <input type="checkbox"/> Journals (list) _____  |
| <input type="checkbox"/> Sch. E/FTB Form 100 (Corp.)   | <input type="checkbox"/> Purchase Invoices      |
| <input type="checkbox"/> Sch. K-1/FTB Form 565 (Prtnr) | <input type="checkbox"/> Depreciation Schedules |
| <input type="checkbox"/> Business Property Statements  | (Other Counties)                                |
| <input type="checkbox"/> Other _____                   |   |

**1. GENERAL COMMENTS FROM ASSESSEE**

- A. Date business started at this situs \_\_\_\_\_
- B. Number of locations in Ajax County \_\_\_\_\_
- C. Fiscal year end \_\_\_\_\_
- D. Type of business \_\_\_\_\_
- E. Type of organization: Sole Proprietorship ☐ Partnership ☐ Corporation ☐  
Any change in real estate ownership or change in control of more than  
50 percent of stock ownership in the last four years? Yes ☐ No ☐
- F. Any changes in technology/process? Yes ☐ No ☐  
Any effect on equipment: Yes ☐ No ☐  
If yes, explain: \_\_\_\_\_
- G. Capitalization policy \_\_\_\_\_
- H. Any affiliates or subsidiaries located here or elsewhere within the county?  
Yes ☐ No ☐  
If yes, please provide:  
Name \_\_\_\_\_  
Address \_\_\_\_\_

- I. Method of accounting:    Accrual ☐      Cash ☐      Hybrid ☐
- J. Does assessee have improvements/fixtures on leased land?      Yes ☐    No ☐  
If so, please refer to item 5.
- K. Is a suspense, clearing or capital account used?      Yes ☐    No ☐  
Comment on its use: \_\_\_\_\_

## 2. SUPPLIES

G. L. Acct. numbers \_\_\_\_\_

- |                                       |   |                                      |
|---------------------------------------|---|--------------------------------------|
| <input type="checkbox"/> Office       | <input type="checkbox"/> Shop           | <input type="checkbox"/> Maintenance |
| <input type="checkbox"/> Pallets/Bins | <input type="checkbox"/> Medical/Dental | <input type="checkbox"/> Printing    |
| <input type="checkbox"/> Photography  | <input type="checkbox"/> Janitorial     | <input type="checkbox"/> Samples     |

- A. Are supplies expensed as purchased? ☐    As consumed? ☐  
If expensed when purchased, how many weeks/months are kept on hand?  
\_\_\_\_\_
- B. What is included in reported supplies? \_\_\_\_\_
- C. Was a physical inventory of supplies taken:      Yes ☐    No ☐  
If yes, when? \_\_\_\_\_
- D. Have "supply type" items been classified as inventory?      Yes ☐    No ☐
- E. Have "supply type" items been classified as prepaid accounts?      Yes ☐    No ☐
- F. Does the company have chemical storage/holding tanks?      Yes ☐    No ☐  
(Gasoline, propane, oil, etc.)  
If yes, how are levels on hand determined for reporting purposes? \_\_\_\_\_

## 3. OTHER ASSESSABLE ASSETS

G.L. Acct. Numbers \_\_\_\_\_

- |   |   |
|---|---|
| <input type="checkbox"/> Containers   | <input type="checkbox"/> Small tools                |
| <input type="checkbox"/> Molds, Dies, Jigs  | <input type="checkbox"/> China, Glassware, Flatware |
| <input type="checkbox"/> Art works, Antiques                                      | <input type="checkbox"/> Other _____                |
| <input type="checkbox"/> Library <input type="checkbox"/> Updates, expensed _____ |   |
| <input type="checkbox"/> Operational Software                                     |   |
| <input type="checkbox"/> If application software (not assessed), describe _____   |   |

## 4. EQUIPMENT

- |   | YES   | NO    |
|---|-------|-------|
| A. Is equipment primarily purchased new?<br>[Verify that full costs have been capitalized: cost, sales tax, freight and installation. Sample invoices to verify both cost and cut-off (March-May invoices)] | _____ | _____ |
| B. Have any equipment acquisitions involved a trade-in of existing equipment?   | _____ | _____ |

		YES	NO
C.	Is fully depreciated equipment still on the books? Is it reported?	___	___
D.	Are disposed/scrapped assets written off the books?	___	___
E.	Has previously leased equipment which is now purchased been capitalized at the full original invoice cost and acquisition date?	___	___
F.	Does the company manufacture and use their own equipment? If yes, are all costs capitalized? (Equipment depreciation or capitalized interest if project extends beyond one year, labor, overhead, sales tax on materials) If yes, verify/establish trade level.	___ ___	___ ___
G.	Is there a vehicle account which includes non-licensed vehicles [or vehicles not covered by an annual license fee ("se" license)]	___	___
H.	Do any officers, employees, or any related companies lease or loan lease or loan equipment to this company? If so, please refer to item 7.	___	___
I.	Does this company have idle equipment on its premises? If yes, how is it accounted for in the general ledger? _____	___	___

#### 5. EQUIPMENT OUT ON LEASE OR RENT TO OTHERS

A.	Does this company lease or rent equipment to others? If so: Type of equipment? _____ Standard lease/rental period? _____ Reported at proper trade level? _____ Costs includes:    [ ] Sales tax [ ] Freight [ ] Installation	___	___
B.	Is the leased equipment reported to all California counties?	___	___
C.	Do they lease equipment to "related" entities at a lower value than those unrelated?	___	___
D.	Do they lease equipment originally purchased from a parent or subsidiary company in which they receive a discounted purchase price?	___	___
E.	Were lease contract agreements reviewed?	___	___

#### 6. BUILDING, LAND, AND LEASEHOLD IMPROVEMENTS

A.	Was the appraisal record reviewed while on a situs review?	___	___
B.	Was a detailed schedule of these items obtained?	___	___

		YES	NO
C.	Were trade fixtures identified?	___	___
D.	Was a determination made whether expensed items should have been capitalized as real property additions or trade fixtures?	___	___
E.	Was it noted whether capitalized items were repairs and/or new additions?	___	___
F.	Have items been posted to the real estate account since the last appraisal?	___	___
G.	Do leasehold improvement items left from the previous tenant affect the appraisal?	___	___
H.	Are any fixtures included in the real property appraisal?	___	___
I.	Have any leased trade fixtures been reflected on the books as purchased after the lease terminated?	___	___
J.	If the property is tenant-occupied, do there appear to be trade fixtures which should be reported by the real property owner?	___	___

**7. CONSTRUCTION-IN-PROGRESS**

A.	Do the books reflect CIP on any of the lien dates?	___	___
B.	If there was CIP, are the payables accrued properly for the lien date cut off?	___	___
C.	Are there periodic progress billings from the contractor?	___	___
D.	Were any invoice reviewed which were paid after liendate?	___	___
E.	Was the contract reviewed for the new addition(s)? What does the CIP represent?     [ ] Real Property [ ] Fixtures/Equipment	___	___
F.	Is CIP self-constructed? If so, are all costs properly capitalized? (Equipment depreciation or capitalized interest if project extends beyond one year, labor, overhead, sales tax on material)	___ ___ ___	___ ___ ___

**8. PROPERTY BELONGING TO OTHERS**

	YES	NO
A. Does the company have on its premises property belonging to others?	—	—
B. Did they indicate property belonging to others on their business property statement?	—	—
C. Has that property been assessed? If so, complete the following Assessee: _____ Parcel # _____ If not assessed, please provide the following: Name _____ Mailing _____ Situs _____	—	—

## PROPERTY TAX AUDITS OF WELFARE-EXEMPT ORGANIZATIONS

The Welfare Exemption is applicable to land, buildings, and personal property that is owned by a nonprofit organization and is used exclusively for religious, hospital, scientific, or charitable purposes. In order to qualify for the exemption, both the owner and the property must meet the requirements of subdivisions (1) through (7) of Section 214, Revenue and Taxation Code.

Here is a summary of the basic requirements for an organization and its property to qualify for the Welfare Exemption:

The owner is not organized for profit

No part of the net earnings of the owner inures to the benefit of any private shareholder or individual.

The property is used for the actual operation of the exempt activity (is not excess or vacant.)

The property is not used or operated by the owner or by any other person so as to benefit a person through the distribution of profits, payment of excess charges, or compensation.

The property is not used for fraternal or lodge purposes, or for social club purposes except where incidental to a primary religious, hospital, scientific, or charitable purpose.

The property is irrevocably dedicated to religious, hospital, scientific, or charitable purposes (specific wording to only one or more of these purposes, and educational if limited to Section 214), and upon dissolution will inure to an organization organized for one or more of the above-stated purposes.

The property, if used exclusively for scientific purposes, meets the prior listed requirements and unless the "scientific purposes" are medical research, the organization is chartered by the Congress of the United States.

If there is an operator, other than the owner, using the property, the operator must also file a claim and meet the requirements for the exemption. A qualified owner's property cannot be exempt until both the operator and the operator's use of the property is found to be exempt.

If only a portion of the total property is used in an exempt manner, the portion so used may be exempt and the remaining portion is taxable. Proration of a property

is acceptable. For more detailed information, review Assessors' Handbook Section 267, Welfare Exemption.

Note that administration of the Welfare Exemption is the joint responsibility of the State Board of Equalization and the assessor. A Welfare Exemption cannot be granted unless both the Board and the assessor approve the claim. The staff of the State Board of Equalization, Assessment Standards Division, annually reviews all applications for the Welfare Exemption, and approves or denies the exemption based on the information supplied by the applicant and the assessor. The Board staff occasionally conducts a field review or formal audit of welfare-exempt properties and organizations, but the primary responsibility for verifying the accuracy of the application for exemption, and therefore the eligibility of the property for exemption, is the assessor's.

The assessor is solely responsible for determining the value of property subject to exemption. However, since there is no tax implication for property that is assessed but then exempted, the valuation standards for such property is less important than for property that is taxed.

Although the Board may audit the use of the property, the assessor has the primary responsibility for verifying that the property is used for the exempt purpose claimed on the application.

An audit of a welfare-exempt property should concentrate on use of the property and whether there is unreported property, particularly property belonging to another. Accordingly, audit standards for determining whether costs of property were reported accurately (e.g. were freight-in, installation, and sales tax capitalized properly?) are much lower than for taxable properties. Accurate reporting of costs and accurate appraisals by the assessor are only important for portions of the property that are taxable.

The following points, at a minimum, should be addressed when auditing the property of a welfare-exempt organization.

1. Prior to the fieldwork, ascertain whether a claim was timely filed for the year(s) under audit and whether a finding was issued by SBE.
2. Check the welfare claim (Section B front and reverse) where property is listed as leased to the organization. Property not owned by the organization or leased from an exempt organization is taxable.
3. A walk-through of the facility can establish the most important points to cover.
  - a. Establish that the property is used for exempt purposes.

- b. Discover any property on site that is owned by others that may or may not qualify for exemption.
  - c. Ask whether any equipment on site is used by other organizations and determine whether it is taxable.
- 4. Review the accounting records for:
  - a. Rental income or other revenues that may indicate the property is used for nonexempt purposes.
  - b. Rental or lease expenses that may indicate the use or presence of taxable property belonging to others.
  - c. Cost records to ascertain that all significant property assets were reported as required. (Minor inaccuracies in reporting are not relevant for exempt property.)
- 5. Determine what areas of property or equipment, if any, are not exempt. If taxable property escaped, audit, appraise, and enroll such property in accordance with standards for taxable business property.

## DISASTER REVIEW DATA SHEET

TO: Chief of Real Property  
 FROM: Chief of Technical Services  
 RE: Disaster Review

DATE:

Per the attached application for Section 170 (Revenue and Taxation Code) tax relief/building permit please review the following property:

A.P.N.: \_\_\_\_\_

ADDRESS: \_\_\_\_\_

Complete the following information and return this form, with the attachment application/building permit, to the Chief of Technical Services as soon as possible.

DATE OF CALAMITY: \_\_\_\_\_

BUILDING PERMIT NUMBER: \_\_\_\_\_ DATE: \_\_\_\_\_

	LAND	IMPROVEMENTS	P/P
--	------	--------------	-----

VALUE BEFORE DAMAGE

VALUE AFTER DAMAGE

PROPERTY IS:

FULLY REPAIRED

DATE OF COMPLETION:

REPAIRS STARTED

REPAIRS NOT STARTED

APPRAISER # \_\_\_\_\_

DATE \_\_\_\_\_

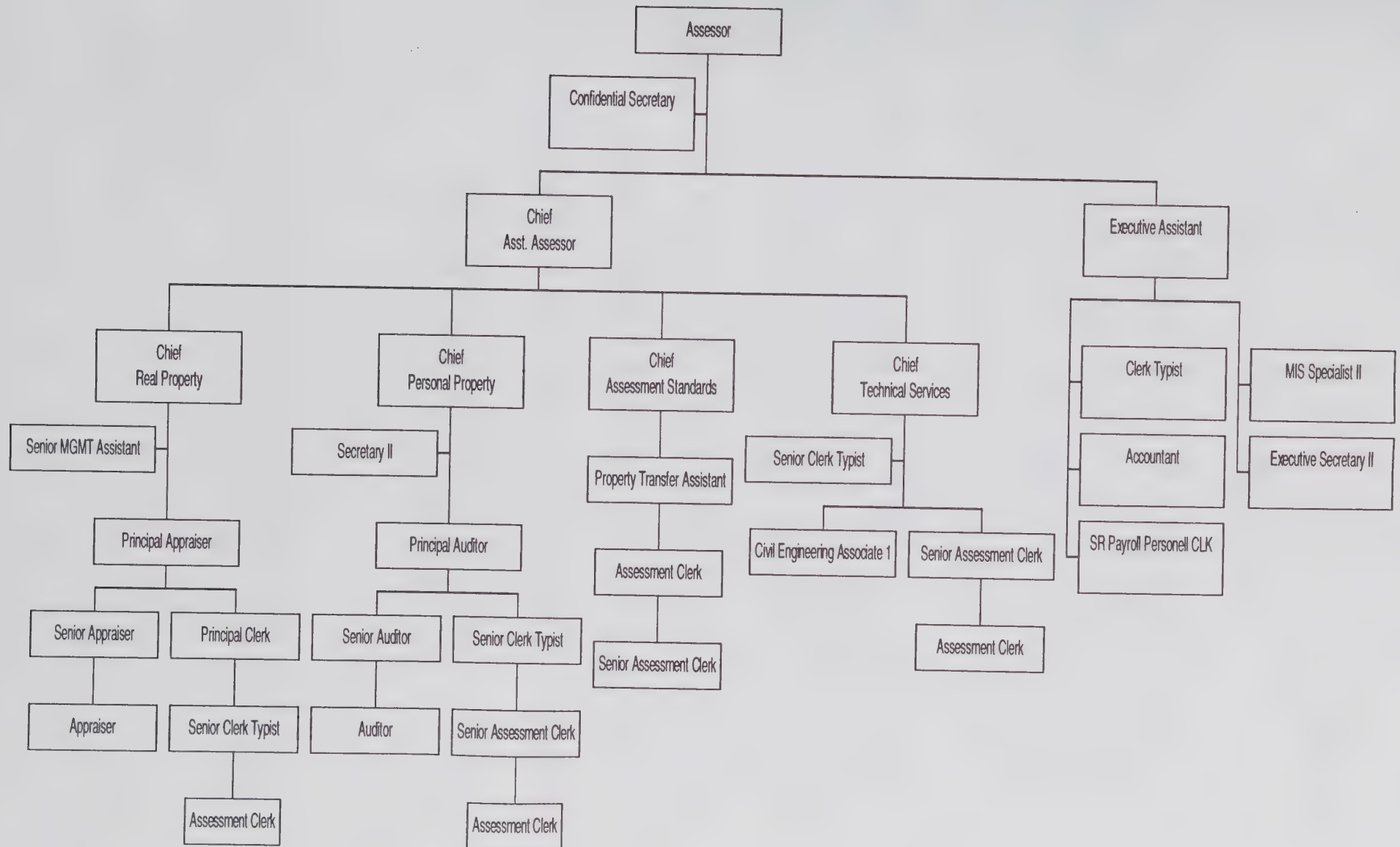


# Organization Chart

## The San Francisco County

### Assessor's Office

July, 1995





## THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing 1/ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's Assessment Standards Division (ASD) on a five-year cycle and described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
- (2) These assessments are stratified into three value strata 2/, identified and placed into one of five assessment categories, as follows:
  - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous ASD assessment sampling.

---

1/ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

2/ The three value strata are:

1. \$1 to \$199,999;
2. \$200,000 to \$1,999,999;
3. \$2,000,000 and over.

- b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling.
  - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling.
  - d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.
  - e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
- (4) The field investigation objectives are somewhat different in each category, for example:

- a. Base year properties -- for those properties not reappraised since the previous ASD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
  - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
  - c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
  - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?
  - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
- (6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the Assessment Standards Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

**ASSESSOR'S  
RESPONSE  
TO  
BOARD'S  
RECOMMENDATIONS**



**DORIS M. WARD**  
ASSESSOR



**February 20, 1996**

**Richard C. Johnson, Chief**  
Assessment Standards  
State Board of Equalization  
Post Office Box 942879  
Sacramento, CA 94279-0001

RECEIVED

FEB 20 1996

Division of Assessment and Statistics  
SACRAMENTO

Dear Mr. Johnson:

In accordance with Section 15645 of the California Government Code, the following report constitutes the Assessor's response to the 1995-96 Assessment Practices Survey conducted by the State Board of Equalization.

The survey conducted by your staff is very comprehensive and represents a more significant analysis of an assessment program than any undertaken by the Board during the past 20 years. I appreciate the direction provided by the State Board members in response to my request for a thorough audit of the City and County of San Francisco assessment program.

The Board's report documents long standing deficiencies in the program. Overall, the recommendations provide a plan for achieving a highly uniform assessment program. The report will serve as a benchmark for measuring current management and staff performance as many of the recommendations are implemented in the immediate future. My commitment to implement the recommendations is reflected in the deadlines established and recorded with the response.

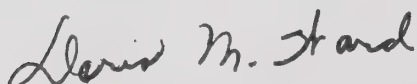
You will note in my response to the survey report that I agree with many of the recommendations; a significant number of recommendations are in various stages of implementation and are consistent with my goals. In a few instances, I disagree with a recommendation and while it may have merit there are other overriding considerations such as cost/benefits, declining budgets, or a difference of opinion as to priority or the best approach to resolve an issue.

I am pleased to note the Board's sample appraisal program confirmed a high level of assessment uniformity is provided for the property taxpayers of San Francisco. The statistical data resulting from the sample appraisal effort indicates tax revenue is maximized which is contrary to recent media speculation on the subject. Because of the

importance of the property tax program in California, with the City and County of San Francisco generating in excess of \$500 million of public sector revenue, it is extremely important to continue the audit process in a timely manner in all counties.

Finally, I wish to express my appreciation to the State Board Audit team for the professional manner in which they conducted their research, and restate my thanks to the Board members for undertaking this extraordinary survey.

Sincerely,

A handwritten signature in dark ink, appearing to read "Doris M. Ward". The script is cursive and fluid, with the first name "Doris" being more prominent than the last name "Ward".

**Doris M. Ward**  
Assessor

DMW/ldc

**RECOMMENDATION 1:** Expand the Office of the Assessor's Strategic Plan as follows: (1) include all issues, both positive and negative; (2) extend the strategic planning process to the divisional level to include issues and strategies specific to each division; (3) develop lower-level implementation plans that include measurable objectives with due dates and responsible parties.

#### RESPONSE

The Assessor's Strategic Plan will be expanded to focus on the recommendations contained in this report that are not already included in the plan. In 1995 the planning process included an effort to involve staff through the supervisory level; mid-management has participated for the past several years in developing the plan for the department.

**RECOMMENDATION 2:** Develop an Assessor's Office Policy and Procedures Manual that pertains to general administrative matters. Update the various operations manuals within the assessor's office to reflect current office procedures.

#### RESPONSE

The Assessor is keenly cognizant of the need for and the value of policies and procedures in a manual format. Administrative manuals will be created and distributed to all employees. Further, the department will update antiquated operations manuals to reflect current laws, rules and procedures, and the mission statement. Written manuals are road maps for all employees to follow. In addition, manuals facilitate compliance audits, development of standards, and staff evaluations. It is important to note that the completion and distribution of policies and procedures manuals do not ensure compliance as the auditor suggests. Adherence to policy and procedure is a function of management and supervision.

The auditor inferred that the Assessor does not review the policy statements which exist today. That is not true. In a city where grievances, appeals, and employee rights are a way of life, division chiefs must communicate policy to the administrative staff to secure prior approval and support to protect their integrity.

City Attorney Louise Renne assigned a Deputy City Attorney to write a personnel procedures manual from current memos to reflect the mission statement, goals and future objectives of the office. This will be completed in February 1996.

Real Property, Technical Services, and Administration are networking with other Assessors' offices to update operation manuals. These should be completed and distributed to employees by August 31, 1996.

**RECOMMENDATION 3:** Redefine the objectives and responsibilities of the assessor's assessment standards section as the standards and quality control unit.

#### RESPONSE:

The current mix of functions of the Assessment Standards Division is the result of internal promotions to the position of Chief of Assessment Standards, as a former Chief of Technical Services and a former Principal Real Property Appraiser carried some of their prior responsibilities to their new position. Processing earthquake damage and direct enrollment of residential sales were appraisal programs developed in Standards, but never relocated following development.

The responsibilities of the Assessment Standards Division Unit will be redefined relative to management objectives, staffing, workload and budget considerations.

**RECOMMENDATION 4:** Update computer capabilities by: (1) acquiring a modern mainframe computer system for assessment functions; (2) implementing a more comprehensive Local Area Network (LAN) and continually training all staff in its use; and (3) filling the vacant computer specialist position and providing continued support for this function.

#### RESPONSE

- (1) During the past year, the Assessor, Tax Collector, and the Controller have conducted a comprehensive nationwide search to find the most cost-effective automated system for San Francisco. We have developed the guidelines for a new integrated system. A Request for Proposal was put out to bid in early December 1995, and we received several bids. We expect to have the first stages of this new system in place during the summer of 1996.
- (2) The department operates a LAN designed in July 1994. We have been refining it for the past two years. In October 1994, we made a major modification by establishing neighborhood boundaries. Also, we have developed in coordination with our Information Systems Department a highly refined sales query system. This query system is broken down into three major databases - single family residential,

multi-family residential, and commercial/industrial/miscellaneous properties. There are over 30,000 post-1987 single family residential sales alone. This system is available to all real property appraisers. Furthermore, we have provided over 355 hours of training on the personal computer and LAN system for more than 20 real property appraisers and seven real property clerical staff.

- (3) We concur with this portion of the recommendation and have placed a high priority on filling the Management Information Specialist and LAN Specialist positions as soon as possible.

**RECOMMENDATION 5:** Further develop and improve the weekly production reporting system so that key workload categories can be measured and the resulting information used more effectively as a management tool.

### RESPONSE

The Assessor initiated a weekly time and production reporting system for all divisions in the Assessor's Office as of July 1, 1994. We will continue to develop and refine this system to make it an effective management tool. After creating meaningful management reports, the system will be utilized to create much needed job performance standards for the staff.

Management reports will be available by July 1996 with the help of Information Systems Development Department (ISD). The program modification will allow management to manipulate the data.

The Assessor records the following two comments to provide perspective on text material in the survey report that follows Recommendation 5.

- (1) As a result of the inauguration, January 8, 1996, of the Honorable Willie L. Brown, Jr., departments are no longer required to submit personnel requisitions to the Mayors office for approval as long as the positions are approved in the budget. This change will streamline the hiring process described in the text of the survey report.
- (2) The Assessor wishes to more accurately and clearly state the policy and practices as it relates to recruitment. The Assessor uses the established professional appraisal organizations such as the Appraisal Institute, real estate organizations as well as colleges, universities, newspapers and radio. In order that the entire population is reached, she also includes organizations and media that is targeted

to specific populations or groups, minorities (e.g. Afro-Americans realtors, Asian realtors, Hispanic realtors, women realtors, and the Gay community).

**RECOMMENDATION 6:** Initiate a review of the Civil Service Rules and Regulations to determine hiring options and opportunities available to establish programs unique and necessary to the assessor's office.

## RESPONSE

The Assessor concludes that there is no need to initiate a review of Civil Services Rules and Regulations to determine hiring options and opportunities. Staff is well aware of Civil Service Rules and the participation of several employee unions in the process.

The Assessor apologizes for the lack of clarity and inadequate communications surrounding this recommendation. The following information is provided to contradict or clarify the survey report text material following Recommendation #6.

It is a proven fact that employees can transfer within the same classification. The Assessor authorized the transfer of principal appraisers. In addition, the Human Resources Department agreed that the Assessor could transfer an appraiser, 4261, to an auditor appraiser, 4220. However, we could not transfer a senior auditor appraiser, 4222 to an appraiser position, 4261, without demoting the employee. Lateral moves are permitted.

Secondly, and to clarify text material in the report, it is untrue that there is no training for employees. The professional and clerical staff takes advantage of HRD, SBE, and IAAO training classes, as well as those presented by professional appraisal organizations, community and state colleges. Upward mobility assignments are handled very carefully since the Memorandum of Understanding from two unions state that: "An employee assigned in writing by the Department Head to perform a substantial portion of the duties and responsibilities of a higher classification shall be entitled to out of class pay after the tenth (10th) work day. (Within a sixty working day period) of such an assignment, retroactive to the first (1st) day of the assignment". (SEIU Local 790 MOU) "Employees assigned by the department head or designee to perform a substantial portion of the duties and responsibilities of a higher classification shall receive compensation at a higher salary if all of the following conditions are met:"

- 1) The assignment shall be in writing.
- 2) The position to which the employee is assigned must be a budgeted position.
- 3) The employee is assigned to perform the duties of a higher class for longer than ten (10) consecutive working days or eighty (80) hours, whichever is greater" (1 FPE Local 21).

**RECOMMENDATION 7:** Review the possibility of obtaining additional delegation from the Human Resources Department for position classifications and examinations.

**RESPONSE**

In order to comply with the Auditor's recommendation, the Assessor would need additional staff. If additional staff is to be requested, the priority of the Assessor is for computer technicians and appraisers. In negotiations with the HRD staff and Personnel Director in January 1996, the Assessor secured a commitment for a position reclassification study of department appraisers, auditors, and clerical positions plus clerical positions in the Clerk/Recorders Department. The study is scheduled for completion prior to merging the two departments on July 1, 1997.

The checklist recommended in the text of the report for orientation of new employees is being implemented.

**RECOMMENDATION 8:** Develop and adhere to a training plan for certificated appraisal and audit-appraisal staff.

**RESPONSE:**

We will prepare a training program for certificated appraisers and auditors. We will also encourage advance certification to drop the annual training requirement from 24 to 12 hours. In March 1995, we hired six appraiser trainees and provided them an extensive training experience for the first year of employment.

We are making great strides in acquiring the necessary training for all appraisers. Nine real property appraisers have had SBE Course 55 and nine real property appraisers have had SBE Course 56. We currently have a requisition in for 17 additional real property appraisers to take SBE Course 56 if it can be given locally. We have acquired 924 hours of appraiser training for real property appraisers in the first two quarters of fiscal 1995/96 alone. For example, on November 10, 1995, we sent 21 real property appraisers and two auditors to the Dynamics of Office Building Valuation seminar presented by the Appraisal Institute. Such classes provide valuable training in the appraisal of complex property types.

Appraisers having training hour deficiencies in excess of 40 hours are required to draw up a plan to correct their training hour deficiency.

Furthermore, we have provided over 355 hours of training on the personal computer and

LAN system for more than 20 real property appraisers, seven real property clerical staff and the Chief Real Property Appraiser. Four real property principal appraisers have attended a course given by the Department of Human Resources, Managing Problem Performance.

**RECOMMENDATION 9:** Cross-train and rotate the clerical staff and the assessment clerk staff in the real property and personal property divisions to optimize the use of existing resources.

#### RESPONSE

The Assessor concurs with the recommendation.

We have started and plan to continue the rotation of clerical staff between the Real Property and Personal Property Divisions. Employee cross training and rotation of work assignments is one of the goals of the Assessor; the rotation will be department wide and should include the Clerk/Recorder staff when the departments are merged in 1997.

**RECOMMENDATION 10:** Upgrade the administration of assessment appeals by: (1) increasing control over appraisal records; (2) developing and presenting training specifically for the assessment appeal function; and (3) acquiring and employing computer-operated software including an AAB program, income capitalization models, and appraisal forms.

#### RESPONSE

- (1) The contract appraisers are now required to formally sign out the records for the appeals they are assigned and are allowed only to take a few records at one time. The contractors are either former employees of assessor's offices and the SBE and/or are designated appraisers (three are MAIs) and should be trusted as much as staff appraisers. No records have been lost by a contractor.
- (2) This is already being done. Training sessions were held June 22, 1994 and August 2, 1994 for the contract appraisers and members of the assessor's staff. The Appraisal Institute's video, The Appraiser as Expert Witness, was shown and extensive discussion followed concerning the appeals process and appraisal methodology. The statement that "The training should include mock hearings with role playing, critiquing, and feedback to all participants." is interesting and will be considered as we seek to improve our presentations in the appeals arena.
- (3) None of the counties, Los Angeles, Alameda, and Marin, referred to in the survey for us to contact have PC programs which are readily available for sharing.

Unfortunately, most counties' programs are tied to their mainframes and are therefore not compatible with other systems and not readily shared. Those counties having LAN systems are tied in directly to their mainframes and use that data directly.

**RECOMMENDATION 11:** Revise welfare exemption procedures as follows: (1) adhere to reporting and filing requirements for the welfare exemption; (2) do not declare to a claimant that a welfare claim has been approved until the claim has been ratified by the Board; (3) expedite the processing of new welfare exemption claims; (4) forward a list of welfare claimants and their exemption status to the business property division; (5) train staff to process the abbreviated welfare exemption claim form; and (6) date-stamp exemption claims forms when received in the assessor's office.

## RESPONSE

- (1) The Assessor concurs with the recommendation. Approximately 5,000 applications must be filed by the required due date to avoid late filing fees; these applications must be filed by January 10 and processed by March 15. There are only two welfare exemption clerks processing 5,000 applications. We intend to adhere to filing and reporting requirements mandated by the legislature. The Exemption Supervisor has been directed to process applications within ten working days of receipt. We are reviewing written procedures from other assessors offices.
- (2) We concur with this recommendation and a format letter will be presented to the Board for ratification.
- (3) We are striving to acquire an online automated system, that will partly resolve this problem. However, we may need additional resources to perform in a timely manner.
- (4) Contrary to the text a list of welfare claimants and their exemption status is provided to the Business Property Division on a timely basis. However, when we have a new online system, we will have a better tracking system because current information is vast and scattered. An online system will update and revise applications and record inspections.
- (5) Staff will be trained to process the abbreviated welfare exemption claim form.
- (6) We use an electronic date stamper for mail and will remind staff to date stamp applications delivered by applicants to the public service counter.

**RECOMMENDATION 12:** Make improvements to the property tax exemption program in the areas of lessor's exemptions, non-profit organizations, equipment leased to exempt organizations, and the processing of claim forms.

#### RESPONSE

The Assessor concurs with the recommendation. The Exemption Unit and Business Property Section now use a new procedure to flag contractual relationships between leasing parties. A questionnaire form letter will be used requesting expanded information and verification of non-profit status as required for exemption under Section 3 of Article XIII of the California Constitution, in regards to sales contracts on their expiration and the transfer of leasing contracts which state a nominal sum.

The SBE will be requested to provide training on not for profit organizations relative to lessee, lessor and lease agreements for Technical Services staff.

**RECOMMENDATION 13:** Review "Proposition 8" values on a regular basis.

#### RESPONSE

Staff initiated an intensive Proposition 8 review in March 1994 for the 1994/95 Assessment Roll. Property values for all types of property in the City have been in a serious decline since early to mid-1989 and have only recently shown a pattern of leveling off. Indeed, some areas of the City and some property types even show signs of rising property values. Our extensive review in the spring of 1994 included both manual and computer-assisted reviews of values which resulted in 18,878 properties receiving the benefits of Proposition 8.

In March 1995, we initiated another intensive manual and computer-assisted review of the approximately 28,592 properties receiving the benefits of Proposition 8. For most categories of properties, we found that property value levels did not warrant further reduction much less increases. However, an additional 2,039 properties received the benefits of Proposition 8, mostly through the assessment appeals process.

In April 1995, we also initiated an individual review of the highest valued properties such as hotels and major office buildings receiving the benefits of Proposition 8. We found that while office buildings showed signs of leveling off, there was no basis for increasing their values from their current Proposition 8 value levels. However, we discovered signs that the value of large hotels receiving Proposition 8 benefits had not only levelled off but in some cases had increased, and we in fact increased the value of these properties.

This recommendation and the text accompanying it, as written by the Board staff, may be the result of poor communications with the Assessors staff. The Assessor closely monitors the real estate market and when the market changes, assessments will change. Board staffs description of the departments' inattention to Proposition 8 assessments is misleading and somewhat inaccurate.

**RECOMMENDATION 14:** Establish and implement a procedural policy for roll corrections that includes (1) reviews of change in ownership statements to identify principal place of residence; (2) documentation of appraisal records that a roll correction is authorized; (3) consolidation of the various roll value correction forms that are now being used.

**RESPONSE:**

The Assessor concurs with the recommendation. Procedures for roll corrections are now in place which accommodate (2) above. We will review the current homeowners exemptions procedures to avoid unnecessary costs due to roll corrections and revised billings; we will modify or consolidate the various roll value correction forms.

Homeowners exemption procedures will be reviewed by March 15, 1996; roll value correction forms will be revised by June 30, 1996.

**RECOMMENDATION 15:** Modify the disaster relief assessment program by: (1) requesting the board of supervisors to adopt a disaster relief ordinance that reflects the requirements of the Revenue and Taxation Code; (2) granting disaster relief to all qualifying property, including personal property; (3) using all available sources for discovering properties damaged by calamity or misfortune; and (4) transferring the disaster relief program to the Technical Services and Real Property Sections.

**RESPONSE:**

The Assessor concurs with the recommendation and will modify the disaster relief program as follows:

- (1) Submit a request for a revised ordinance to the Board of Supervisors to reflect the requirements of Revenue and Taxation Code Section 170 by June 1, 1996.
- (2) & (3). Request monthly reporting from the San Francisco Fire Department of all properties damaged by fire; develop and implement new procedures to facilitate the identification of damaged properties.

- (4) Transfer the disaster relief program from the Assessment Standards Division to Technical Services Division for processing and tracking applications and to the Real Property Division for review, inspection and valuation of properties. This will be in conjunction with the creation of a Transactions Unit.

RECOMMENDATION 16: Revise the list of transfers for public use to meet the requirements of Section 408.1 of the Revenue and Taxation Code.

RESPONSE:

We will modify the "Ownership Ledger" to include all additional information needed to comply with the requirements of Section 408.1 of the Revenue and Taxation Code by July 1, 1996.

RECOMMENDATION 17: Develop and implement uniform policies and procedures for the maintenance of records to ensure that all records are updated, archived, and/or destroyed on a regular basis.

RESPONSE

This recommendation is similar to Recommendation 34 (1) below; the Assessor concurs with the recommendation.

The department will submit a request for an open shelf filing system with its budget for the 1996-97 fiscal year. Division Chiefs will submit plans for purging obsolete material, controlling records, and reorganizing/rearranging files. The Assessors' Strategic Plan includes a goal of significantly improving the maintenance and storage of records.

We have an interim policy for a record checkouts and purging system. We have initiated the first of our office-wide file maintenance days in which we dedicate as many of the staff as possible towards alleviating a problem which has existed for at least the last twenty to thirty years. Indeed, many of the main real property forms were designed by a former assessor in the 1920's so obviously there is room for improvement. We will continue to develop the appropriate policies and procedures and dedicate staff efforts towards this problem.

We agree with the comments about improving the documentation of building records. We will adopt a standardized Appraisal Remarks Record to this end. We agree that the proper procedures for such documentation and forms must be put into place (see Recommendation 2 above).

A supplemental budget request for \$120,000 has been submitted to the Mayor for open shelf files to enhance maintenance and control of Real and Personal Property records.

**RECOMMENDATION 18:** Establish an appraisal activity system to help identify and prioritize the real property workload.

### RESPONSE

The Assessor concurs with the recommendation and is committed to acquire a modern mainframe computer system integrated with the Controller and the Tax Collector. We put this system out to bid in December 1995 with implementation to begin in mid-1996. We appreciate your support in convincing the Mayor and the Board of Supervisors that the proposed system is critical to the City's fiscal integrity. This system will be designed with an integral appraisal activity system to help identify and prioritize the real property workload.

Recommendation 31 (3) is the primary recommendation dealing with the creation of the new Transactions Unit. Please refer to our response to that recommendation for further information. Recommendations 15, 18, 22, 24, 25, 26, 30 and 31, are all directly affected by organization of the Transactions Unit.

**RECOMMENDATION 19:** Create and maintain an appraisal data bank.

### RESPONSE

The Assessor concurs with the recommendation; the recommendation is the same as Recommendation 34 (2) below.

We have created several data banks. We subscribe to a publication called COMPS which provides information on commercial, industrial, and multi-family residential sales. We also subscribe to DAMAR which is installed on our Local Area Network system, which in turn is available to all real property appraisers. DAMAR provides information on residential, multi-family residential, and commercial sales.

In addition, we established our LAN system referred to above in July 1994 and have been developing and refining it ever since. In October 1994, we made a major modification to not only the LAN but also to the mainframe database by establishing the neighborhood characteristic for all the approximately 172,000 parcels in the City. These parcels are downloaded to the LAN and we have developed a highly refined sales query system. This query system is broken down into three major databases - single family residential, multi-family residential, and commercial/industrial/miscellaneous properties. There are over 30,000 post-1987 single family residential sales alone. This system is available to all real property appraisers.

The area we are striving to develop and refine is in the capture and collection of sales and income data for the most complex properties. We are gathering a tremendous amount of information through the appeals process, and we have plans for developing databases specific to this end. We also get extensive lease, income, and expense data through Black's Guide. We have already submitted proposals to our Information Services Division in order to get the necessary expertise in creating a functional and meaningful database available to all of our appraisers.

RECOMMENDATION 20: Consider all applicable approaches to value.

#### RESPONSE

We concur that all appropriate approaches to value must be used, especially on the more complex properties. We have already implemented this recommendation for the valuation of the most complex properties in the appeals process. The assessor's staff prepare individual stapled documents for use in assessment appeals presentations. These include the usual data about the subject property, comparable sales, several approaches to value, and reconciliation into a final value indicator.

Due to the unique nature of property in the City the cost approach is of very limited value except for new construction. The age, size, complexity, and individuality of properties all the way from the most complex properties to common residences in the older sections preclude use of the cost approach. The other difficulty in the cost approach lies in discovering the appropriate land value to use. As the City is for all practical purposes built out, there are few land sales occurring with which to assign a land value.

We will establish policies requiring the standardized use of various appropriate approaches to value for specific property types with appropriate documentation as well as develop the corresponding forms to use.

RECOMMENDATION 21: Draft and distribute to the real property staff an official procedures and policy for the application of Section 506 interest.

#### RESPONSE:

The Assessor concurs with the recommendation and will adopt a formal procedure for the application of Section 506 interest on the Secured and Unsecured Escape Rolls by April 1996.

RECOMMENDATION 22: Reassign change in ownership document processing responsibilities.

RESPONSE:

The Assessor concurs with this recommendation. The department is reorganizing to establish a Transactions Unit for controlling and processing change of ownership and building permits. Staff training and development of the unit is assigned to the Assessment Standards Division. Eventually, this unit will be transferred to the Technical Services Division when fully operational.

RECOMMENDATION 23: Develop and implement a written policy for making cash equivalent adjustments.

RESPONSE:

The Assessment Standards Division will develop a policy to address the cash equivalent of sales which involve bonds, trust deeds, promissory notes, and other negotiable documents. The appraisal staff will be provided with copies of the Assessor's Handbook Section 510F, Cash Equivalents.

RECOMMENDATION 24: Review value calculations for parcels having multiple fractional interest transfers.

RESPONSE

The Assessor concurs with the recommendation. The appropriate forms and procedures to effect these calculations are being developed. The policy, forms, and procedure will be in place by June 30, 1996.

RECOMMENDATION 25: Reappraise and supplementally assess all qualifying changes in ownership resulting from foreclosures by financial institutions.

RESPONSE

The Assessor concurs with this recommendation. Department policy now requires a reappraisal of every change-in-ownership and notification to the assessee, even in the few instances when the taxable value on the assessment roll is a reasonable reflection of full cash value at the time of foreclosure. The policy will also ensure the new base year for the assessment is recorded in the data base and the taxpayer receives the required notification. The policy statement was issued on February 16, 1995.

**RECOMMENDATION 26:** Establish procedures, controls, and areas of responsibility to ensure that all properties subject to reappraisal because of changes in control receive timely and appropriate action.

**RESPONSE**

The Assessor concurs with the recommendation. A Senior Management Assistant is establishing interim procedures to ensure that all properties reflecting changes in control are reassessed. In addition, this position will be responsible for tracking properties identified in the LEOP reports to insure that they are properly assessed. We requested and have received from the SBE an inclusive list of all properties in the City recently subject to a change in control to ensure the discovery of such properties and that they have been reassessed or clearly identified as not requiring reassessment.

A reorganization of the department will centralize control of all change in ownerships and building permits within a "Transactions Unit". In addition to workload control, the staff in this unit will have the primary responsibility for change in ownership decisions, screening building permits, direct enrollment of sale price for certain change in ownerships, merging records such as building permit data and taxpayer/builder reported cost of construction or preliminary change of ownership reports and responses to sales questionnaires prior to transmittal to the appraisers. The unit will maintain data bases for workload control from the date a deed, LEOP report, other change of ownership record, or a building permit is received in the department until a new assessment is ready for entry to the assessment roll or the activity is documented as not requiring a change of value.

Staff for the Transactions Unit are identified and the first phase of operations will deal with the new construction backlog and the electronic receipt and use of building permit data from the permit issuing agency. The second phase will involve the implementation of change in ownership responsibilities and procedures. The assignment to the Senior Management Assistant for change in control of legal entity transactions will continue until the Transactions Unit is fully operational.

**RECOMMENDATION 27:** Eliminate the current backlog of assessable new construction.

**RESPONSE**

The Assessor concurs with the recommendation. This is a common problem for Assessors in the State of California and especially those with major metropolitan areas.

A new construction crew will be staffed on or before April 1, 1996 to work on the backlog. Total resource available for this work will be dependent upon the department receiving funds from the State of California that are designated for property tax administration. The Assessor is working towards a contractual agreement with the State Department of Finance to secure funds in the form of a loan that will provide sufficient staff to eliminate

the work backlog over the next three years.

Creation of the new construction crew accommodates Suggestion 2. We have been aware of the pending impact from the statute of limitations, and formation of a special crew has been an option in the planning process. The formation of the Transactions Unit and the advantages of a small specialized appraisal crew interfacing with the unit's staff as they start to function has been the determining factor in use of a new construction crew.

**RECOMMENDATION 28:** Reinstitute formalized procedures for processing, valuing, and enrolling assessable new construction.

#### RESPONSE

The Assessor concurs with the recommendation. We are contacting other assessing operations to determine if they have procedures suitable to adaptation to our needs. A specialized new construction crew will have the potential to provide greater uniformity of appraisal practices and decisions on assessability. The new construction team will be trained and written policies will be developed to ensure a greater degree of assessment uniformity.

**RECOMMENDATION 29:** Standardize the use of the cost approach for valuation of new construction.

#### RESPONSE

The Assessor concurs with the recommendation. This will be a difficult process as the department has never adopted a standardized building quality classification system, the basis for any standard cost system, and consequently has no such data on file or in property records. We are investigating systems such as the Marshall Valuation Service and the SBE's building cost service; we have contacted other counties to see if they have any systems which could be of use to San Francisco in this area. The task of classifying every building in the City at this time is clearly not cost effective but the use of standardized cost on new construction is a practical means of improving appraisal practices.

**RECOMMENDATION 30:** Revise the procedure for the use of self-reporting by taxpayers of certain new construction activity.

#### RESPONSE

Since we already use several different types of self-reporting questionnaires which are oriented toward the appropriate property type, we concur with this recommendation. These questionnaires will be an integral function of the new Assessor's Transaction Unit and the forms will be used more extensively in the future.

We will use a taxpayer self-reporting of new construction program to aid the appraisal crew responsible for new construction and for the direct enrollment of new construction.

**RECOMMENDATION 31:** Revise the processing of building permits by: (1) obtaining sufficiently detailed information for all permits from the Permit Bureau to facilitate accurate screening; (2) revising permit screening parameters; (3) forming a separate permit processing section with adequate clerical staffing and technical support; (4) implementing direct terminal access to the Permit Bureau's data bank as soon as feasible.

**RESPONSE:**

The Department of Building Inspection, which has primary responsibility for the permits and the permit process, is in the final stages of implementing their own new computer system and LAN. Their system will allow inquiries by parcel number and address as well as other characteristics to access current permits and permit history. In January 1996 we met with DBI and the Information Systems Division in order to begin the implementation of the connection of our LAN with DBI's LAN to give us direct access to not only all of the current permits but all of the permit history as well. This connection will allow us to obtain the necessary information to not only screen but also to process and assign permits to the appraisal staff. The hardware, software, and hookup should be in place by June 1996.

We will review permit screening parameters. However, we completed an audit or test in January 1995, when a survey was performed to identify any new construction associated with permits showing a cost of less than \$10,000. Returned questionnaires indicated our screening parameters were reasonable.

The Transactions Unit, previously described, will process building permits.

**RECOMMENDATION 32:** Periodically review discarded building permits for accumulated construction activity that may indicate assessable new construction.

**RESPONSE:**

The Assessor concurs with the recommendation. With access to the Department of Building Inspection permit history file, properties with multiple permits will be in the permit database. Low cost permits will be sampled and tested for possible assessable new construction.

**RECOMMENDATION 33:** Revise procedures for assessing tenant improvements: (1) value and enroll tenant improvements uniformly; (2) investigate tenant improvement costs reported on business property statements; and (3) obtain and review current leases for provisions regarding tenant improvements.

## RESPONSE

The Assessor concurs with the recommendation but notes misrepresentations in the text material. The appraisal and assessment of tenant and leasehold improvements is a controversial issue among the assessor's offices in California and there is no clear consensus as to the proper procedures.

As the survey team states, "The assessment of tenant improvements in a rental market as complex as San Francisco is a most difficult problem for an assessor's staff." Each specific lease situation must be linked with the appropriate property type. For example, we must treat commercial retail, which typically operates on a triple net lease basis, differently from commercial offices which typically operate on a gross lease basis. The situation also changes when the property is a brand new building to when the property is an established building which has built out and undergoes further modifications. We must also be careful to distinguish between the term "new construction" which does not add value to the roll and "assessable new construction" which adds value to the roll. Further, where there is assessable new construction we must be very careful to assess the added value to the proper assessee.

We have problems with several statements made by the survey team. The survey team states, "The San Francisco County Assessor's Office generally values commercial/industrial and major income-producing property by the income approach, using a rent that assumes that all TI's have been installed. For this reason, the real property division concludes that the construction costs reported on business property statements for secured accounts in years subsequent to the base year established for the building do not represent assessable new construction, but are included in the base year value of the building." These statements are not correct. We typically use the cost approach to value the shell and first time buildouts of the tenant improvements completed by the lessor for new commercial and industrial properties, and we do not value real property prior to its existence. Completion of the shell and the first time buildouts of the lessor-installed tenant improvements create supplemental events as of the date of completion and are assessed by the Real Property Division.

The responses to specific sections of the recommendation are as follows:

- (1) We have policies involving the valuation of tenant/leasehold improvements, but they

need to be compiled into a single policy statement as a uniform procedure for appraisers and auditors.

- (2) We will create a comprehensive and coordinated tenant/leasehold improvement referral form which can be initiated and used by both the Real and Personal Property Divisions.
- (3) We are already doing this on a large scale through the assessment appeals process and the Proposition 8 review process. We will continue to expand our efforts in this area as the assessment appeals workload decreases.

RECOMMENDATION 34: Improve the quality of commercial property valuation through (1) better control, organization, and maintenance of appraisal files, (2) better capture, storage, and use of appraisal market data, (3) specialized training for appraisers valuing complex properties, and (4) written procedures for appraisals and their documentation.

## RESPONSE

This recommendation is the same as Recommendations 2, 8, 17, and 19 above. Please refer to those recommendations for additional information.

- (1) This recommendation is the same as Recommendation 17 above - please refer to that recommendation for further information.
- (2) This recommendation is the same as Recommendation 19 above - please refer to that recommendation for further information.
- (3) This recommendation is the same as Recommendation 8 above - please refer to that recommendation for further information.
- (4) This recommendation is the same as Recommendation 2 above - please refer to that recommendation for further information.

RECOMMENDATION 35: Revise the possessory interest assessment program by (1) annually reappraising month to month tenancies, (2) ceasing the assessment of possessory interests in nongovernmental properties exempted by Article XIII of the California Constitution, (3) reviewing terms of possession, and (4) requesting notification of issuance of construction permits issued by, and enrolling assessable new construction at the Port of San Francisco.

## RESPONSE

- (1) The majority of month-to-month tenancies are boat berths. The economic rents for these berths change very little on a year to year basis and, therefore, an annual review is not necessary.

In regard to the examples that reflect month-to-month tenancies (licenses) at the Port of San Francisco, the department completed a review in 1992 of private entities utilizing Port property subject to possessory interest. In this review we looked at all leases/licenses, inclusive of all month-to-month tenancies of which many had not been reassessed since the mid 1980's. We subsequently brought this to the Port's attention and in early 1994 the Port of San Francisco updated most of its lease/licenses to reflect current rental rates. We reviewed these new leases and assessed them accordingly. The review of month to month tenants is not a high priority in matching staff to current workload.

- (2) There are presently only two entities within the City and County of San Francisco which are tax exempt under Sections 203.5 of the Revenue and Taxation Code. These entities are the California School of Mechanical Arts and the California Academy of Sciences. Although these two non-profit entities are clearly exempt and are not being assessed, their unrelated, non-contributory commercial tenants are being assessed for their respective possessory interests in the subject property.
- (3) As noted in the SBE report our possessory interest section is conducting an intensive effort to discover previously unassessed possessory interests and, in addition, has reviewed past procedures which included the term of possession components. During that time and in the future we will review on the lien date all those possessory interests accounts where there is any probable change in term as the result of the intent of the possessor or the governmental agency and reassess accordingly for declines in value.
- (4) As noted, the priority of possessory interest has been discovery and enrollment of escaped assessments and due to limited staffing, permit work is backlogged. We concur with the SBE recommendation to address this permit backlog and have designated additional staff to assist in this matter. Processing the Port Authority building permits will be a responsibility of the Transactions Unit.

**RECOMMENDATION 36:** Bring the mandatory audit program up to current status.

## RESPONSE

The Assessor concurs with the recommendation. The mandatory audits are a high priority. This recommendation was in the 1990 survey and as pointed out in this write-up, the

number of auditors has decreased from 31 to 21. The department lacks clerical staff to perform non-appraisal functions such as processing Form 571L and fieldbook canvassing; auditors must complete all the essential responsibilities of producing the unsecured roll before they can resume the auditing function. The assumption of an eight-month audit period is incorrect because of our antiquated computer system, use of calculators to process form 571-L and shortage of clerical staff at critical times results in a six-month audit period rather than the eight-month period noted in the text.

For 1996, with the expansion of the Local Area Network to help in different areas, Personal Property Division will reduce the mandatory audits backlog. Unless there are additional budget resources to relieve auditors from clerical functions, bringing the mandatory audit program to current status will be a long-term process.

**RECOMMENDATION 37:** Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed timely.

#### RESPONSE

The Assessor concurs with the recommendation. Waivers are essential and will be carefully monitored by each Principal Auditor.

As mentioned in recommendation 39, if the mandatory audit program is current, there will be a minimal number of waivers of the statute of limitations.

The survey report text notes there are only 62 signed waivers for 162 outstanding audits. Of the 162 accounts, about 90 of them are basically completed and contain enough information to demonstrate they will be "no change" audits. If there is any potential escape for the soon to expire statute of limitation, a waiver will be sent, or a jeopardy assessment will be enrolled if the taxpayer doesn't respond on time.

**RECOMMENDATION 38:** Develop a formal non-mandatory audit program.

#### RESPONSE

This recommendation is a good concept; due to limited staff, our priority is the mandatory audit program. The non-mandatory audit program will be limited to only taxpayer complaints or with potential escapes. A routine non-mandatory audit program will only be implemented if the mandatory audit program backlog is eliminated.

Currently, during property statement processing season, all statements are reviewed by an auditor who will flag all statements with potential escapes, Principal Auditors assign those accounts for audit during the year.

**RECOMMENDATION 39:** Improve the processing of business property statements by: (1) screening business property statements for completeness; (2) adding the penalty required by Section 463 of the Revenue and Taxation Code to property statements that are not signed properly; and (3) using clerical personnel to process most business property statements.

### RESPONSE

The Assessor concurs with the recommendation for processing business property statements.

- (1) The office practice is to screen business property statements for signatures. If missing, a copy of the front page of form 571-L is sent to the taxpayer for signature, and the original is kept in the office.
- (2) We did not add the section 463 penalty to statements that are not signed properly but will implement this procedure when processing 1996 property statements.
- (3) We will have clerical personnel process some business property statements, but with only 8 clerks in the Personal Property Division, we depend on the auditors in order to complete the work in a timely manner.

**RECOMMENDATION 40:** Improve the direct billing program by: (1) establishing a year history prior to enrolling an account into the program; (2) excluding hotels, motels, financial institutions, and multi-location accounts from the direct billing program; and (3) sending business property statements to direct billing accounts every fourth year.

### RESPONSE

The office adopted a direct billing program in 1974; we will improve the direct billing program, within the limitations of the data processing programs.

- (1) The current program provides no history file, but a new system must include the element of a history file.
- (2) The office practice is not to direct bill financial institutions and accounts with multiple locations. The ten hotels cited in the report are either residential hotels or lower class hotels with minimum amounts of personal property. The three banks cited are banking agencies that are not qualified for the financial institution exemption.

- (3) We will send business property statements to a limited number of accounts every fourth year. Sending business property statements to small established neighborhood businesses will result in penal assessments.

RECOMMENDATION 41: Improve the business property discovery program by supplementing the field survey with other methods of discovery.

## RESPONSE

We are looking into other means to improve the discovery program. We have been communicating with the Tax Collector Office for a long time to obtain business registration data. Because of the confidential nature of the business tax file, it will take time to screen out the non-public information portion and make the rest available to the Assessor's Office.

Sales Tax Permit information and the reverse telephone directory are good sources to verify known situs of businesses, but there are very labor intensive as a general discovery method to update the data base.

In fieldbook canvass, we survey downtown plus 2/3 of the remainder of the county instead of 1/4 as stated in the text. There are over 55,000 business accounts in our data base, 38,436 business accounts were assessed up to June 30, 1995.

The 70,000 plus accounts listed by the Tax Collector do not represent 70,000 businesses in San Francisco because of the following: (a) contractors outside the county are required to register with the Tax Collector; (b) different levels of sales are taxed at different rates, therefore a single location business may have more than one account, such as one for retail sales, one for wholesale sales and one for service (c) all four unit or more apartments are required to have licenses.

RECOMMENDATION 42: Request the county board of supervisors to adopt an ordinance exempting low-value property.

## RESPONSE

The Assessor will draft a proposed ordinance for consideration by the Board of Supervisors regarding the provisions of Revenue and Taxation Code Section 155.20, exemption of low-value property, by June 1, 1996.

RECOMMENDATION 43: Develop and implement written standardized procedures for the discovery and assessment of landlord-owned apartment personal property.

## RESPONSE

The Assessor concurs with the recommendation. This will be implemented as an integral part of coordinating assessments between the Personal Property Division and the Real Property Division. We will also develop procedures to eliminate duplicate assessments on personal property included in the sale price of the real property. As an ongoing practice, we do send form 571-R to apartment owners who do not qualify for direct billing. We will run a program to identify all 50 unit and above apartment complexes and send them a form 571R.

RECOMMENDATION 44: Exempt personal property owned by co-op housing corporations.

## RESPONSE

The Assessor concurs with the recommendation. We discovered four of the 168 co-op housing corporations with personal property assessments; we will exempt the property.

RECOMMENDATION 45: Reclassify certain service station improvements as fixtures.

## RESPONSE

We agree with the recommendation as a concept but it is a relatively low work priority. There are fewer than 50 service stations in San Francisco and they are either assessed by the personal property division for equipment or by the real estate division for underground tanks on the unsecured roll (foreign improvements) as improvements - structure. If the taxpayer owns the real property, then it will be assessed on the secured roll as either structural improvements or fixture improvements but not as land improvements.

RECOMMENDATION 46: Upgrade the assessment program for leased equipment

## RESPONSE

The Assessor concurs with the recommendation. We will upgrade the assessment program for leased equipment.

In September 1995, a Principal Auditor and an Auditor were assigned the task of developing new procedures to address deficiencies as outlined in the report. We have not used the SBE 600B report because it did not include cost of equipment until recently, but we will use the best available information.

RECOMMENDATION 47: Revise escape assessment procedures: (1) ensure all business property statements are processed prior to the completion of the assessment roll; (2) cite Revenue and Taxation Code Section 531 when adding escape assessments from delayed property statement processing; and provide taxpayers with notices of proposed escape assessments as required by Section 531.8 of the Revenue and Taxation Code.

#### RESPONSE

We are developing programs on the Local Area Network to process form 571L with personal computers connected to the local area network. This will save substantial time over manual processing and avoid the duplicate effort of data entry by Technical Service Division. We believe this new process will reduce the number of assessments enrolled beyond July 1.

For 1997, the lien date will be changed to January 1, 1997, and this should provide extra time to process form 571.

RECOMMENDATION 48: Ensure that when known, the full name of the assessee appears on the roll.

#### RESPONSE

Currently, both assessee's full legal name and "DBA" appears on the roll and the roll index. Any liens that have to be filed by the Tax Collectors Office are against the legal owner.

RECOMMENDATION 49: Make timely submission for approval of Board-prescribed forms.

#### RESPONSE:

The Assessor concurs with the recommendation. Staff will comply with timely transmittal of requested forms.

RECOMMENDATION 50: Upgrade the boat appraisal procedures by: (1) updating the marine division procedure manual; (2) obtaining computer access to DMV's vessel database; (3) requiring an annual Vessel Property Statement be sent to boat owners with boats costing \$100,000 or more; (4) screening more closely the signatures on Vessel Property Statements; and (5) identifying

and assigning duties in the marine section that can be performed by support staff.

## RESPONSE

We are revising Boat Appraisal Procedures.

- (1) A draft of the Marine Division Procedure is complete and it will be incorporated as part of the procedure manual.
- (2) This service will require additional funding that may not be justified. However, we are investigating the possibility of sharing the service with the Tax Collector's Office.
- (3) & (4) We will intensify this procedure in 1996.
- (5) We are shorthanded on clerical support during peak workload periods, but we intend to automate the vessel appraisal process.

RECOMMENDATION 51: Revise documented vessel procedures by: (1) requiring a current United States Coast Guard Certificate of Inspection; and (2) implementing the 80 percent assessment reduction for late-filed exemption claims.

## RESPONSE

Only commercial vessels such as fishing boats or vessels carrying passengers that seek 4% exemptions are required to be inspected by the Coast Guard. All commercial vessels have to be inspected before they can renew their license. We did not require United States Coast Guard Certificate of Inspection if owners have operative licenses, but we will impose this requirement. The 80 percent exemption for late filed exemption claims will be adhered to.

RECOMMENDATION 52: Thoroughly examine the claims for relief under the Soldiers' and Sailors' Civil Relief Act.

## RESPONSE

The Assessor concurs with the recommendation.

With most of the military bases being closed in this area, the number of exemptions will decrease substantially; we will reexamine and verify these claims.



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